Management in Government

November 1983 Volume 38 Number 4

Management in Government

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Management Services in Government

Produced by the Management and Personnel Office in collaboration with Her Majesty's Treasury and other departments and published quarterly by Her Majesty's Stationery Office.

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First published 1983

ISBN 0 11 722718 8
ISSN 0263-4678

Front cover: HM Treasury, Parliament Street.

Management in Government
November 1983 Volume 38 Number 4

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Editorial Note

This issue of Management in Government is devoted to the Financial Management Initiative and related activities. It begins with a summary of the recent White Paper that reported departments' progress in responding to the Prime Minister's initiative and includes three articles showing how the principles of the initiative are being applied by departments.

The Financial Management Initiative

P G Starkey

Paul Starkey is a Principal in the Expenditure Support Group of HM Treasury. For the past year he has been helping with the central co-ordination of the Financial Management Initiative.

The Financial Management Initiative was launched by the Prime Minister in May 1982, when she circulated to Ministers in charge of departments a working paper prepared by the Treasury and MPO. That paper invited each of 31 departments to develop a programme of work for improving its financial management and to discuss it with the Treasury and MPO by the end of January 1983. The paper was subsequently published in September 1982 as an appendix to the White Paper on *Efficiency and Effectiveness in the Civil Service*[1].

A progress report on the initiative has recently been published, in the form of a further White Paper[2]. This report is in two parts. Part 1, which describes the common features of departments' plans, is structured to bring out a number of themes, which are illustrated by reference to developments in particular departments. The second part contains a short

[1] 'Financial Management: note by the Treasury and MPO', in *Efficiency and Effectiveness in the Civil Service*: Government Observations on the Third Report from the Treasury and Civil Service Committee, Session 1981–82, HC 236, Cmnd. 8616, HMSO, 1982, pp 21–36.

[2] *Financial Management in Government Departments,* Cmnd. 9058, HMSO, 1983.

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summary of each of the departmental programmes of work, prepared by the department itself.

The present article briefly surveys the general aims of the initiative, and goes on to describe the main areas of development in departments, as reflected in the recent White Paper.

General objectives

The paper with which the initiative was launched described its objectives as being 'to promote in each department an organisation and a system in which managers at all levels have:

(a) a clear view of their objectives; and means to assess and, wherever possible, measure outputs or performance in relation to those objectives;

(b) well-defined responsibility for making the best use of their resources, including a critical scrutiny of output and value for money; and

(c) the information (particularly about costs), the training and the access to expert advice which they need to exercise their responsibilities effectively.'

The systems which departments are now introducing in response to the initiative are intended to support the control and management of expenditure policy at all levels, from Ministers to the managers of individual units, large and small. They draw on the experience which the Service has already acquired – particularly following the Fulton Report of 1968 – of introducing new management techniques and information systems into government*. The present plans, however, represent a more far-reaching and comprehensive approach.

The work involved in carrying through these plans should not be underestimated. They involve a large number of complex projects which call for a high degree of skill, both technical (for example, in information system design) and in project management. New systems have to be constructed, run in and modified in the light of experience. Staff have to be made familiar with new approaches and trained in new techniques.

So far, much of the work has consisted of investigation and planning, which has cost relatively little. As departments move on to full implementation of the new systems, however, larger sums will be involved. A preliminary estimate has suggested that direct costs of about £35 million (mainly on staff and computer equipment) will be incurred over the next two years or so. This sum, which will be found from within existing public expenditure allocations, is a mark of the Government's confidence that the initiative will lead to a more efficient use of resources and improve the way in which public money is spent.

* *The Civil Service*, Cmnd. 3638, HMSO, 1968.

Better information for Ministers and top officials

One of the main areas of work on which departments are concentrating is on the information systems and machinery which support departmental Ministers and top managers in setting objectives, establishing priorities, and allocating resources – all in the knowledge of what the activities cost, and what they are achieving. The aim is to secure the best possible value for money in the allocation of resources and to ensure awareness of changing priorities and fast adaptation to them at all levels.

This part of the initiative was much stimulated and reinforced by the development of the Management Information System for Ministers (MINIS) in the Department of the Environment. MINIS was originally developed to enable the Secretary of State to probe 'who does what, why and what does it cost?' Its three key features are the preparation of statements summarising performance and plans for all the Department's activities and their cost; the examination of these at meetings between each Director and senior management and Ministers; and the requirement to follow up with agreed action.

In response to the initiative, other departments are now developing similar procedures and information systems in ways suited to their own structures and requirements. The features of these systems vary from department to department, but fall – broadly speaking – into two categories. Some, like the original MINIS or the new DHSS system of Divisional Management Accounts, start 'bottom up' with statements of the functions, costs and achievements of the various parts of the department. Others, like the Department of Trade and Industry and Customs and Excise, start 'top-down' by identifying the aims and objectives of the department as a whole to provide a framework for the preparation of work programmes at lower levels. Either approach leads into an annual cycle for monitoring progress, reviewing priorities and re-allocating resources. Most of these systems cover programme as well as administrative expenditure, though in some cases – depending on the nature of a department's business – separate but linked procedures will be needed for the monitoring and review of expenditure on external programmes.

Many departments are also introducing new or improved machinery for handling the information produced by these systems. A common pattern is the establishment of a top-level committee, chaired by the Permanent Secretary, which prepares advice for the departmental Minister and supervises implementation of his decisions.

If these systems are to succeed, it is important that they should be closely related to the drawing up of expenditure plans, for both the Public Expenditure Survey and the Estimates. In this way, departmental decisions about the resources it bids for and its plans for allocating them can be taken in the light of the periodic review of objectives, priorities and information

about what has been spent and achieved. Integrating the various systems successfully will, however, involve some tricky problems of timetabling; solving these problems will be an important task for the next phase of the initiative.

Management of administrative expenditure

The management of administrative expenditure is in some ways the core of the initiative, since it is here that the individual manager and his staff will experience its most immediate impact. Departments' plans are generally directed towards dividing the work into appropriate blocks, and into 'cost centres' within each block; making their managers accountable for the management of the costs within their control and for the results they achieve; and establishing procedures, information systems and measures for setting the targets and budgets against which performance will be judged. A review of the control of running costs in six departments, co-ordinated by the MPO in 1982, has helped to show the way forward.*

These plans will involve a major effort over the next two years, not only to develop the necessary systems and procedures, but also to familiarise managers with the new approach and train them in the necessary skills. Departments are adopting a variety of approaches to this. Some, for example the Department of the Environment and the Department of Transport, are going straight to a complete array of responsibility and cost centres, with budgets allocated to each, covering all administrative costs. Others, for example the MOD and the Department of Trade and Industry, are testing the operation of line management budgets by the use of pilots in selected areas; these arrangements will be extended in the light of the results. Other departments (the majority) have started by placing some, but not all, cost elements within the authority of line managers, with the intention of moving to a fully-fledged budgetary system by stages. For example, the Department of Health and Social Security is building a budgetary control system on to the arrangements which it introduced in 1981 for devolving greater responsibility to its local offices.

The number of budget-holders in a department and the extent to which responsibility for resources can sensibly be delegated down each management line will reflect the nature of its business. As a broad generalisation, the scope for delegation is likely to be least in HQ units engaged in policy work, where objectives often cannot be defined except in general terms, outputs cannot be quantified, and the work is too reactive to be planned in advance. In the DOE, for example, where most HQ Under Secretaries have less than 150 staff, the typical cost-centre manager is an Assistant Secretary with between 10 and 40 staff. By contrast, the DHSS

**Review of Running Costs:* Report to the Prime Minister by J S Cassels, MPO, 1983.

Under Secretary in charge of the network of local social security offices has some 60,000 staff in over 500 offices. In this command DHSS are taking the local office as the basic unit for budgetary control purposes.

Management of programme expenditure

Programme expenditures are much more varied than administrative expenditures. They range from expenditure for which the department has full responsibility and direct control (such as the Department of Transport's expenditure on trunk roads); through others where the department's responsibility is indirect but substantial (for example the NHS or some of the smaller non-departmental public bodies); to others, for example the nationalised industries, where the department has only a sponsoring or indirect responsibility. Special considerations arise in the case of the local authorities, which are accountable to their own electorates for the efficient and economical provision of services.

By comparison with administrative expenditure, the control of programme expenditure is a relatively uncharted field. Nonetheless, the departmental programmes of work show some very useful developments. The first of these is the clarification of the nature and extent of each departmental manager's responsibility for controlling or influencing the expenditures with which he is concerned, and their results. In some cases (for example MAFF, Department of Energy and the Scottish Office) this is linked with the systematic assembling of basic information about the objectives of existing policies, criteria or targets against which to assess results and the costs both of the programme itself and of running it. The information will be used in the running of the programme where it is directly handled by the department, and for the periodical review of all expenditure programmes (either as part of the planning cycle or separately). Some departments, such as MAFF, plan a cyclical scrutiny of their policy programmes over about ten years.

The second main development is in the improvement of project appraisal and the analysis of cost-effectiveness. This is crucial for obtaining better value for money. The Treasury has recently supplemented its guidance on the techniques of investment appraisal[1] with a further guide on its management in government departments[2].

The third main development is in the clarification of responsibilities and relationships where the spending authority is outside the department. The prime responsibility for implementing programmes in these cases lies with the body concerned, but departmental programme managers need to agree

[1] *Investment Appraisal in the Public Sector* by HM Treasury, HM Treasury, 1982.
[2] *Investment Appraisal in the Public Sector:* a Management Guide for Government Departments by HM Treasury, HM Treasury, 1983. See also the article by M J Spackman on pp 234-243 of this issue.

the body's planning arrangements, ensure that it has effective management systems, and review its performance in relation to the objectives. Work is in hand in this area in a number of departments – for example, DES is undertaking a pilot examination of its relations with the Science and Engineering Research Council, as a prelude to considering its links with its many other non-departmental organisations.

In the local authority field the Department of the Environment and Scottish Office are discussing with other government departments and with the authorities themselves how best to build on the measures already taken (for example, the setting up of the Audit Commissions) to improve the standard of financial management. Matters for attention include the strengthening of medium-term financial planning for capital expenditure; the efficiency of arrangements for the operation of specific grants; the development of output measures; and further improvements in the flow of information. In the police field (where the Home Secretary has specific responsibilities for efficiency), the Home Office's plans include the enhancement of the resource information system for HM Inspectors of Constabulary. For their part, DES plan work on the relationship between authorities' expenditure and the Government's assessment of their needs for rate support grant purposes; and on the means of assessing outputs and value for money (a problem of special difficulty where social programmes are involved).

Implications for staff management

None of these changes in systems and procedures will be fully effective without complementary changes and improvements in the management and training of staff. Earlier this year, the MPO published the report of a Review of Personnel Work * in nine Government departments, conducted in parallel with the preparation of the plans for financial management. The results of this review are described elsewhere in this edition of *Management in Government* in an article by N B J Gurney. They support the thrust of the Financial Management Initiative in its emphasis on giving line management at all levels greater responsibility for the day-to-day management of their staff and sharpening their accountabilities in this, as in other, respects.

Training for financial management

Communicating to staff at all levels on understanding of the principles and implications of the FMI will be a major task. A sustained effort will be needed to change the attitudes of Civil Service managers, which until recently have reflected an organisation and system geared largely to the

* *Review of Personnel Work:* Report to the Prime Minister by J S Cassels, HMSO, 1983.

quality of service provided, while being relatively indifferent to considerations of cost and economy. In this system, the responsibility of line-managers and policy makers for the resource consequences of their decisions has, at best, been ill-defined; there has been little incentive to examine the objectives of a service, whether they are being achieved, and whether that service gives value for money.

Three major target groups for fuller training have been identified:

(a) staff likely to reach senior management posts which require an understanding of financial principles and practice, the government-wide financial system and the particular systems operated by their own departments;
(b) staff working in finance divisions and related activities who must be the experts in these systems;
(c) staff with significant responsibility for managing resources.

It is important that training should be geared, both in content and in timing, to the introduction of particular departmental systems. Most of the training involved will therefore be developed and provided by departments themselves for their own staff. In the Department of the Environment and Department of Transport, seminars have been held for all cost-centre managers and for the cost-centre liaison officers who will be responsible for the day-to-day running of the system. In DHSS, the introduction of cost-centres was preceded by an educational programme flowing outwards and downwards from headquarters; and training will be continued as necessary as the scope of the budgetary controls is extended to more elements of costs. Training within departments on specific skills and techniques is also being stepped up: the Home Office, for example, has begun training in the techniques of investment appraisal, and a major training programme in financial management has been mounted in the Lord Chancellor's Department for staff both in the Courts Service throughout England and Wales and at headquarters.

The Civil Service College and external institutions also have important roles to play in the training process. The College concentrates on the awareness of basic concepts of general application in government; on the training of senior staff, and on the organisation (and some provision) of training in accountancy and audit. Demand for College courses in investment appraisal, finance, accountancy and internal audit has increased greatly and the number of student days provided for will have doubled in two years. Courses with a 'value for money' theme are in particularly high demand.

For senior management, the College introduced the Senior Finance Course in 1982–83, now mandatory for those appointed to be the

Principal Finance Officer of a department. This is being further developed in the light of experience. A series of seminars is also being arranged for senior staff who have significant responsibilities either for administrative expenditure or for programme expenditure. The seminars will help staff in different departments to share ideas and plans, thus supplementing the cross-fertilising role of the Treasury and MPO and their joint Financial Management Unit.

The main contribution of the external institutions is in the accountancy and audit field. To meet demand quickly, a number of polytechnics are setting up courses in internal audit in conjunction with the Civil Service College to a standard set by the Treasury. For professional accountancy training, places have been arranged at polytechnics and in some accountancy firms, and the places available to other departments at the Ministry of Defence training centre at Worthy Down have been expanded.

Staff inspection, internal audit and management services

As greater authority is delegated to line managers, it is essential that the department's Accounting Officer should be able to satisfy himself as to their competence and the soundness of the departmental systems. The central departments had already launched initiatives to improve the standard of staff inspection (1980) and internal audit (1981); and, following the latter, many departmental internal audits have already been restructured. A number of departments' FMI programmes of work include further action to develop staff inspection, internal audit and management services units in departments, and to increase their effectiveness by ensuring closer co-ordination between the various units. Both the Inland Revenue and Customs and Excise, for example, have set up co-ordinating committees of the heads of each unit under the chairmanship of the Principal Finance Officer to harmonise work programmes and arrange for inter-disciplinary studies. The professionalism of internal audit staff is also being improved through a major training programme, described above.

Implications for the Treasury and MPO

By improving the quality of analysis of programme costs and outputs, and providing more accurate and timely information about expenditure flow, the systems which departments are now introducing should help the Treasury to advise the Cabinet more effectively on the distribution of public expenditure, and to ensure that the expenditure conforms as closely as possible to the plans. This in turn should lead to a more fruitful dialogue between the Treasury and spending departments over the Public Expenditure Survey and new expenditure proposals, and to a reduction in the need for prior consultation over more minor matters. Present delegations of authority to spending departments are being reviewed with

this in mind, and the process will continue as departmental systems develop, subject to the maintenance of such common rules and standards as may be necessary. It follows that the Treasury and MPO will be increasingly concerned with the effectiveness of departmental systems and the flow of accurate information from departments. In key areas, such as investment appraisal, staff inspection and internal audit, the Treasury and MPO will continue to develop standards or guidelines for the use of departments, and to monitor their application.

Implications for Parliament

We have already noted the need to ensure a close relationship between the departmental information systems which are being developed under the FMI, and the Public Expenditure Survey and Estimates. The introduction of decentralised budgetary control arrangements may make it desirable to alter the detailed structure of the Supply Estimates presented to Parliament. Further work will be needed to establish more precisely what is required. Any changes in the structure, content and form of the Supply Estimates and the annual Public Expenditure White Paper will have to take into account the developing needs of the departmental Select Committees as well as those of the Exchequer and Audit Department and the Public Accounts Committee. In particular, it is intended to develop the White Paper to contain clearer statements of policy objectives – which in turn will be related to progress and performance indicators wherever possible. Thus, the White Paper and Estimates should in future become a ready starting-point for examining the performance of a department in more detail.

Next steps

Achieving the objectives of the initiative will involve major changes, which will call for several years of sustained effort. As departments make further progress with implementing their plans, the Treasury and MPO will continue to keep closely in touch with them, both to monitor progress and to ensure that useful experience and best practice are widely disseminated. Some departments have invited the Treasury to join steering committees and working groups. But formal reporting will be kept to the minimum necessary, so that departments are not distracted from getting on with the job. The Civil Service Unions will also be consulted as appropriate: a number of these developments have implications both for the workings of Trade Union sides and for the relationships between management and the Unions.

A number of tricky problems, common to most or all departments will have to be tackled during this period. They include: how best to integrate controls over Civil Service numbers with systems of delegated budgeting;

how best to strike a balance between flexibility *within* budgets and flexibility *between* budgets; the timing of the budget cycle; and further work on indicators and measures of performance. The pilot studies which departments have in hand should help to advance our understanding of how best to attack these problems; and the Treasury and MPO will continue to be helped by their joint Financial Management Unit, set up in the summer of 1982. It is hoped that by the time the Government publish a further report in the summer of 1984, good progress on many of these issues will have been made.

The Role of Managers and Management Audit

J F Mayne

John Mayne was appointed Director General of Management Audit in the Ministry of Defence in 1981. He joined the Air Ministry in 1956 after reading PPE at Worcester College, Oxford, and has served in a variety of MOD posts, including that of Private Secretary to the Secretary of State. He was seconded to the Treasury in 1964, to the Cabinet Office and the Central Policy Review Staff in 1970 and to the Northern Ireland Office in 1979. He is a Fellow of the British Institute of Management.

This article is the text of a paper delivered on 9 June 1983 to the RIPA group of sessions at the Annual Conference in Eastbourne of the Chartered Institute of Public Finance and Accountancy.

Introduction

My subject is the role of managers in the central public sector – as managers of the executive operations of government rather than as managers of policy issues at the highest levels.

Management in this sense is not necessarily or always a top priority in Ministers' minds nor would I wish to argue that detailed involvement in the management of the implementation of policy should be a major concern of Ministers. However, the constitutional position of officials in relation to Ministers does make it very difficult indeed for officials to effect management improvements, especially against opposition, if Ministers display no interest in, or positive attitude towards, management issues.

When improvements are made to the management of policy formation in government, it is often very difficult to tell whether the policies are any better than they were before. There are, of course, opinions on the subject, but opinions are notoriously bad guides to the truth and evidence is very

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hard to come by. But in the field of implementation of policy we can hope to do a little better – indeed it is important that we should – because:

(a) substantial amounts of public money are involved;
(b) efficient and economical implementation is a desirable political objective;
(c) the effectiveness of policy is largely a function of the efficiency with which it is implemented;
(d) improved implementation motivates managers and thereby prevents policy from being vitiated by waste;
(e) implementation and its improvement can be measured and audited.

Myths

Before considering the role of the manager in detail I should like, if I can, to lay one or two ghosts. It is commonly perceived that the private sector manager has clear objectives for all that he does, measures all that he does in relation to those objectives, is given delegated authority to act as he thinks fit in order to achieve those objectives efficiently, and has freedom within limited constraints to dispose his resources to this end. It is also a common perception that the public sector manager has none of these things (and, of course, none of the efficiency of the private sector manager). I believe that both these perceptions are almost wholly false. In reality, the private sector displays a wide range of good, bad and indifferent examples of these precepts being followed as well as of their being ignored. There are successful as well as unsuccessful companies which exercise strong central control over their operations, just as there are successful as well as unsuccessful companies whch delegate maximum authority to line managers. There are brilliant as well as less good managers.

The central public sector is just as varied, government departments vary enormously in size. Some, such as the Department of the Environment, are mainly advisory; others like the Ministry of Defence are executive. None is monolithic. Management areas vary in size from a dozen or so to several thousands; in composition from generalist office staff to scientists, engineers and dozens of other specialists; and in type between headquarters divisions, local offices providing services direct to the public and huge executive operations such as dockyards and research and development establishments. All require different skills and different management methods. As in the private sector the quality of the managers varies. Generalisations about such variety are usually misleading.

I hasten to add that I am not trying to claim that the public sector comes out of the league table with as many wins, draws and losses as the private sector. I am only pointing out that both can do better: how much relatively I would not care to guess.

The managers' role

I take it as generally accepted that the role of the central public sector manager, as of any other manager, must be to use the resources at his disposal so as to achieve the objectives of his organisation with efficiency, that is with the right balance of effectiveness and economy. I shall try to unpack that truism bit by bit as we go along, and to separate the rhetoric from the facts; for by itself such a definition is of limited use as a guide to action.

To begin, I believe that the public sector manager operates under certain important constraints:

(a) his operation is part of the political process of the government of the country;
(b) his objectives cannot always be clearly specified;
(c) his lines of authority and accountability are not always clear;
(d) his performance is not easily measured;
(e) he has no 'bottom line' of profitability or liquidity as the ultimate test of efficiency;
(f) the size and complexity of government operations pose particular problems;
(g) rewards for individual performance are difficult to devise and operate objectively and fairly.

All of these constraints are inter-connected.

The political process

From the first of them there is, and should be, no escape and it conditions both what the central public sector manager does and what he is. It is of the essence of the political process that choices between one policy and another, one measure and another, one decision and another, are more often than not made on a difficult and fine judgement of qualitative as well as quantified elements; and all important decisions of this kind have to be taken by Ministers. In such an environment the role of managers in pursuing efficient implementation of policy decisions is unusually difficult – far more so than in an environment where efficiency can more often than not be measured with a reassuring degree of accuracy and certainty.

Central control and delegation of authority

The political process also demands that departments and the managers within them should be under political control – by Ministers, the Cabinet and Parliament. The political imperatives and conventions under which we operate – that what we do will probably be publicly exposed and should be

readily defensible and seen to be generally acceptable, equitable and fair – call for central controls at least of policy, plans and total resources (cash and manpower, including centrally negotiated pay rates) which are more pervasive and constraining than would be tolerable in the private sector and than is fully efficient in the public sector, and which limit the authority that can be delegated to the individual manager. One could put the point in another way by saying that such constraints as the need for acceptability, equity and fairness are themselves often objectives of public policies and that they often conflict with the objective of efficiency of implementation of policy. Nor do we, the public, pay the public sector manager to take entrepreneurial risks; we require him to do a job effectively and as economically as possible.

It can be argued that nothing should be done to disturb this delicate mechanism in which detailed central control should be dominant in the name of political accountability, and administrative accountability should remain secondary. I reject that view, as I shall explain later.

Objectives

If a manager is to achieve objectives he must know what they are. This presupposes that the objectives can be stated in a way that makes them both explicit and attainable (albeit with an element of challenge to the manager). It is notoriously difficult within the political process to state objectives in terms in which performance can be measured. The objective 'to abolish poverty in the inner city areas' may be attractive to the ear and the heart but is useless as a guide to action until one defines the measure of poverty: how many people, in what inner city areas, are to be removed from below the poverty line, by what means and in what timescale. Merely to state such a list of requirements is to demonstrate how unwise a Minister might be to specify publicly the detailed objectives of an intended reform programme. Of course, the objectives can be specified confidentially to line managers but not made publicly known; but concealment of specified objectives would be a hazardous and probably unsuccessful course especially in an era of departmental Select Committees, investigative journalism and the like. And in many cases, for example in the field of education, environmental services, personal social services and health, objectives have to be made public if the managers responsible for delivering the service (eg the local authorities) are to be given useful guidance.

It is not only a question of the expediency or otherwise of stating objectives; it is of the essence of the political process, especially if it is democratic, that almost all the objectives of public policy are conditional and dependent on circumstances; there is no single, ultimate and overriding objective. In the defence field the often stated objective of

'effective deterrence and defence' has to be disaggregated, if it is to be manageable, into intermediate objectives for front line units and support units. But, though operational analysis and other forms of scientific modelling can help, there is still no calculus in most cases for determining the extent of the contribution to effective deterrence and defence made by one operational front line unit and another of a different kind costing the same amount; or of that made by the stores and workshops that support those units. Still less are there sufficient objective criteria for determining marginal shifts of resources between the units. Nor is defence unique in this. For such decisions judgement is more often than not needed to make the final step from the analysis of available evidence to a conclusion; and there is no recognised acid test for quality of judgement.

Accountability

It is a considerable help to management to have clear and simple lines of authority and accountability so that every manager knows to whom he reports and for what he is responsible. The MOD is not the only department in Whitehall to find such a precept difficult to follow. Any Secretary of State for Defence will wish to get military advice from a Serviceman, financial and political advice from civilians, scientific advice from a scientist, advice on procurement from a procurement expert, and so on. This advice will more often than not conflict – such is the nature of the political process – and the conflicts have to be resolved by political decision. This is why there can be no single person, civilian or Serviceman, with absolute authority across the department below Ministerial level. This is not to say that we despair of clarifying lines of authority and accountability, but that we have to serve a political process within which there are few absolutes and many relativities. What is true of the MOD is undoubtedly also true at least of the major executive departments. The Secretary of State for Social Services has the same problems in resolving the conflicting advice he must receive from his many specialists and administrative advisers.

Measuring performance

In the defence field there is an acute awareness of the peculiar penalties of ineffectiveness. In operational front line units great care, effort and ingenuity goes into creating operational effectiveness and in measuring it in peacetime by a variety of tests and competitions. However, as we move away from the front line and into the support area it becomes increasingly important to temper considerations of effectiveness with those of economy, without, of course, losing sight of the ultimate need for operational effectiveness. What we are after in these areas are measures of efficiency, and particularly relative efficiency. These are extraordinarily

difficult to devise. As an illustration of this one could cite the example of a store supplying spares to the front line. The store's record of effectiveness might be that it manages to meet 90% of all demands placed upon it within 12 hours, with the odd 10% being met within 24 hours. Front line users might regard that performance as sufficient because it enables them to meet their own targets of, say, 90% of weapons consistently at combat readiness. The store's high level of effectiveness may be greater than is necessary to support the military objective, but that is not the concern, financial or otherwise, of the front line user. It behoves us to ask, moreover, on efficiency grounds, how much it costs to achieve 85% effectiveness rather than 90%, 80% rather than 85% and so on, and to seek to measure the opportunity cost of the savings, for example in terms of more weapons. But the judgement about the most cost-effective percentage is highly dependent on the point of view of the decision-taker: the users in the front line will have one view, the financial controllers in the area another and those in other areas of the Department a third. Ministers ultimately have to decide on the basis of their political judgement.

Size and complexity of government

The sheer size and complexity of government departments add to management's difficulties. The Ministry of Defence, for example, has a workforce of nearly 600,000, some three times the size of the largest private employer, and a federal structure. It encompasses more than a thousand identifiable management units ranging from a wide variety of front line units to factories, training units to research establishments, schools to policy divisions, dockyards to recruiting offices. Yet the MOD is not the largest public sector organisation: the National Health Service is some 800,000 strong. Who runs a bigger hotel or a bigger laundry business, to say nothing of the medical care? Before one can begin to tackle such monsters one needs to know a lot about them: the right sort of management information systems therefore need to be further developed as a high priority.

Managing change

I do not subscribe to the view that since all of these constraints on the efficient implementation of policy exist, little or nothing can be done to improve efficiency – not because I believe the system is very inefficient but because any system, public or private, is capable of improvement. I should like to consider improvements under seven headings.

Delegation

First, if we are to have significantly more efficient government, we need to produce a shift in the current balance, away from detailed central control

and towards greater delegation of management decisions. This is already taking place. Of course central control of policy and of the aggregate of expenditure of resources in a department must continue to be exercised. But attempts at central control of the detail of management activity, especially in a government department of any size and complexity and with a significant executive role*, may give the impression of competence while in reality it robs the manager, who can know what is actually going on on the ground, of the authority to match resources to circumstances in the interests of efficiency. For example, it is silly to try to exercise day-to-day managerial control of Devonport Dockyard, with its 14,000 strong labour force performing an extremely costly, complex and technical task, from the Ministry of Defence Headquarters in London or Bath.

I recognise that, however one delegates authority within a department, there remains the political issue of whether Parliament can be persuaded that what goes on even at a very technical level in a dockyard is not a matter of consuming national, even if only ephemeral, interest; but I believe that it is possible to ensure that sufficient information can be made available at the centre when it is needed without at the same time running a system where everything is controlled from the centre.

Information

Second, we shall need more and better information: not a flood of undifferentiated and irrelevant rubbish; and not information that enables the centre to 'second guess' responsible managers; but reliable and robust information systems that enable the centre to know who is responsible for what, and how well he is doing his job, and are all that Parliament and the public can reasonably require if confidence in government is to be maintained.

We need information for policy formulation and resource allocation, and for the management of implementation. Such information will not ensure that good policy and management decisions are taken. That depends crucially on the judgement which is so essential a part of decision-making at all levels in the public sector, particularly at the highest levels. The function of information and analysis based on such information is to take the decision-maker to the point at which analysis can no longer be of help, and judgement is the only guide; but where the distance to be bridged by the exercise of judgement is the narrowest possible.

Management units

Third, we need to break down big organisations into smaller manageable

*Departments, incidentally, which dominate the Civil Service in terms of numbers (MOD, DHSS, Employment Group, DOE, Inland Revenue, Home Office and Customs and Excise) but not to anything like the same extent in terms of the span of Government as a whole.

units, each with as clear functions and lines of accountability as possible. At these lower levels of aggregation we can hope to be clearer about objectives and increase the extent to which achievement can be quantified and performance measured.

Accountability

Fourth, the managers of these units need to be made more accountable: they need to know precisely what their terms of reference are and what is required of them, including objectives of effectiveness and efficiency. Greater accountability can be delegated through the medium of budgets within which authority to vary resources can be incorporated and through which the manager can be called to account by his seniors. The more that this can be done objectively through quantification, the more effective the calling to account can be.

Managers also need clear 'contractual' relationships with any 'customer' they serve, internal as well as external; and the 'customer' must be subject to similar disciplines as the 'contractor'. I believe that for most executive operations within government such clarifications and improvements are possible, useful and practical.

Objectives

Fifth, when the elements of government are disaggregated, objectives can be stated more clearly and with less inherent conflict. It may not be possible to do so with the clarity and simplicity possible in the private sector but the fewer and clearer the objectives that are given to a manager the more he is likely to be successful both in delivering a service and in doing so economically.

Audit

Sixth, the more authority is delegated to line managers, the more we need to audit what they are doing – not to 'second guess' them but to help them to manage better. I have written elsewhere* about the development of management audit in the Ministry of Defence and do not intend to repeat myself here. Traditionally, government departments have relied for the audit of management systems on staff inspection, internal audit and management services; and as the systems have developed so have the disciplines developed to cope. Staff inspection has become more sophisticated and in the Ministry of Defence has become more selective, moving away from manpower control and towards manpower audit, checking how the line manager is using his allocated manpower and the

*'Management Audit in the Ministry of Defence' by J F Mayne, in *Management in Government*, August 1982, pp 138–146.

grading structure. We have been developing systems-based internal audit for defence activities since the early 1970s. It has been made more selective and is now planned to tackle a sample of units, locations and accounts, sufficient to enable an overall audit judgement to be reached on behalf of the Accounting Officers and to provide a constructive service to line management. Room is being made for special audit projects of particularly difficult systems or areas. Management services continue to be developed to cope with the increasingly sophisticated demands for an internal management consultancy service.

It has been our experience, however, that, especially as greater authority has been delegated to line managers and as the environment of defence has become more complex, the separate disciplines of staff inspection, internal audit and management services have been incapable by themselves of solving the organisational and systems problems that line managers have encountered, and in some cases – dare one say it? – created. What is needed in these circumstances is not the application of a tried set of remedies based on well-known principles and past practice (which tend to bounce off the problem) but management analysis of an altogether higher order. As we continue down the path of greater delegation of authority, more analysis of this kind will be required. We are calling for high judgemental qualities in our senior managers and we need to be able to audit those judgements.

Sometimes, of course, one can hire management consultants to supply specific expertise but I do not think one gets value for money from that quarter until one has identified what the problem really is. So often one knows only that there is a problem without being able to specify precisely what it is. We have therefore taken the unusual step of drawing our staff inspectors, internal auditors and central management services people into one organisation and are seeking to develop 'management audit' as a constructive, though not optional, service to line managers to help sort out the really knotty organisational and systems problems which crop up so frequently in the Ministry of Defence and, I suspect, elsewhere. While I would not suggest our method of tackling these problems is necessarily the only one, I do believe that a public sector organisation of any size, complexity and sophistication which is seeking to improve its efficiency, especially if it does so by delegating greater authority to line managers, will need a similar sort of function to serve as a focus for improvements in financial management information and other systems.

Motivation

Seventh, motivation. No manager will perform well unless he is well-motivated. The motivation in the public sector has traditionally been that the job should be well done because it is worth doing well. The task is the

dominant element and effectiveness the key to performance. There is much in this tradition that is valuable and which we would discard at our peril.

Management systems, especially those in which performance can be easily measured, will not make a bad manager into a good one, but provide a means for encouraging or enforcing improvement. In part because performance is often difficult to measure, the efficiency of public sector management is hyper-dependent on both the quality and the motivation of its people. I draw the conclusion that we must develop more ways of objectively measuring the public sector manager's performance; more ways of commending the good ones than promotion (increasingly unavailable in a shrinking service) and of penalising the less good than stagnation. Part of the long-term answer may lie in the pay system as a means of rewarding good managers and penalising the bad, and the Megaw findings are an important step in this context; part may lie in better training; but some other means must be found which does not link performance to personal interest. It has to be founded in the traditional perception that what matters is that the job is well done and the development of measures to demonstrate that this is so.

Conclusion

To summarise, I consider that there are great similarities in the role of managers in the central public sector and in the private sector but also fundamental differences. The similarities are greater than the traditionalists in the public sector often argue and the differences greater than priviate sector protagonists often assume.

The fundamental difference which runs as a theme throughout most of what I have said is that the public sector manager operates as part of the political process. The political process deals more in relativities than in absolutes; in opinions, views and political judgements rather than in certainties; in seeking the 'least bad' solution to complex political problems rather than the 'best' solution which usually does not exist.

For the manager in the public sector this basic fact raises problems which affect the extent to which he can attain perfect efficiency: the extent to which authority can be delegated to him is restricted; his objectives are not always simple, clear and convergent; he does not always have a single and uncluttered line of accountability; his performance is difficult to measure objectively; he usually works in very large and complex organisations; and his motivation is traditionally in doing his job excellently rather than necessarily cheaply or in order to benefit personally.

Notwithstanding all this, the role of the public sector manager – and this applies to managers of policy as well as of executive operations – must not be to abandon the attempt to introduce as much certainty and quantification as possible into the political process. He must seek, for his

Ministers and for himself, to get as far as possible to a solution by precise information and hard, objective and quantified analysis, recognising that:

- rarely will this lead to a complete solution – political judgement will be needed to close the gap between the analysis and the conclusion; but
- the analysis can reduce both the gap and the hazard of jumping it.

Fortunately for managers of executive operations there are analytical tools available to him, such as management information and financial management systems, and they can be further developed to meet his needs.

However public sector operations are managed, they must be effectively audited; and paradoxically the need is greater, the more authority is delegated to line managers. The complexities of government and the political process call for inspection and audit of a very special kind developed from the traditional disciplines of staff inspection, internal audit and management services advice. Whereas these disciplines apply well-tried principles and best past practice to the solution of current problems, they are not always sufficiently effective; management audit must seek to identify and solve, through high quality management analysis, those difficult organisational and systems faults for which traditional remedies provide no solution.

Nothing will work properly unless managers at all levels are motivated to carry out worthwhile tasks effectively and economically. If we are clear about what we want people to do and if we involve them in measuring and improving their performance, I personally doubt whether overdoses of carrots – or sticks – are required.

A great deal has been and is happening in public sector management to achieve greater cost effectiveness, as Cmnd. 8616* and subsequent action clearly demonstrate. The difficult task of top management is to bring together the scale and complexities of public sector organisations and processes, methodologies and people. The pace of change is necessarily slow because the supply of gifted managers is so short. In an increasingly complex society the United Kingdom and the public sector within it are not the only ones embarking on the long, hard slog to develop and train the best talents for this purpose. The remarkable thing, looking back on the past 25 years, is not so much the fact that the public sector has inertia, which I would not seek to deny, but that so much has changed and is changing for the better, which I assert with the utmost confidence.

* *Efficiency and Effectiveness in the Civil Service:* Government Observations on the Third Report from the Treasury and Civil Service Committee, Session 1981 – 82, HC 236, Cmnd. 8616, HMSO, 1982.

Investment Appraisal in the Public Sector

M Spackman

This article describes what is meant by 'appraisal' in the public sector and the conditions needed for it to be effective. It defines good practice. Its purpose is to help departmental managers in setting up, checking or developing procedures in the areas for which they are responsible, and to be an aid to internal and external audit. The article is based on a booklet *Investment Appraisal in the Public Sector: A Management Guide for Government Departments* issued by the Treasury earlier this year.*

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Appraisal is about looking for the best value for money from the use of resources. The term 'investment appraisal' is shorthand. A fuller description would be investment and general expenditure appraisal. It is sometimes called option appraisal. Appraisal enables objectives to be achieved at lower cost, or more to be achieved for the same cost. It applies to investment projects, to the review of existing assets, to the setting of standards, to the choice between alternative current expenditures, and to many areas of general policy analysis.

What appraisal means and why it matters

The principle of appraisal is no more than common sense: that is, to decide for an expenditure proposal:

* Copies of this guide and of the companion technical guide *Investment Appraisal in the Public Sector* (generally known as the 'green booklet'), which was issued by the Treasury in June 1982, may be obtained from the Committee Section, HM Treasury, Parliament Street, London SW1P 3AG.

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- What are the objectives? How is success to be measured?
- How might the objectives be achieved? What options are there?
- What do we need to know to make a well informed decision?

Appraisal is often straightforward, but it can pose technical problems. Which costs to include may be unclear; different options may involve costs incurred at different times or different degrees of risk; different balances of benefits may have to be compared. Special techniques are available to help in such cases.

Common types of appraisal

Four kinds of appraisal are commonly used in the public sector, although individual cases may not fall exclusively into just one of these categories:

(1) *Commercial appraisal:* the comparison of sales revenue with the cost of the resources used to create it. This is used widely by the nationalised industries and by trading funds.

(2) *Cost-effectiveness analysis:* the comparison of options where the output cannot be valued in money terms. In the public services this is the most common form of appraisal.

(3) *Cost-benefit analysis:* an appraisal centred on the evaluation in money terms of benefits and/or costs which are non-marketed or whose market value does not reflect their economic value.

(4) *Financing appraisal:* the appraisal of financing costs. In central government this is needed only when a special financing method is proposed, such as leasing. Departments do not need usually to consider specifically how their expenditures are to be financed, provided they are within their agreed cash limits or other control totals.

The first three kinds of appraisal differ in the types of costs and benefits taken into account and in the sophistication with which they are valued. The fourth is more specialised. Other kinds of appraisal are also used, such as 'exchequer cost analysis', but these can provide no more than supporting information for appraisals of type (1), (2), or (3). It is usually clear which kind of appraisal is appropriate.

The scope of investment appraisal

Appraisal is relevant to any specific proposal for spending or saving money or for the use or non-use of resources. Common examples in central government are:

- new or replacement *investment projects* – whether or not to undertake a project; whether to undertake it now, or later; whether to buy one piece of equipment or another, or from one supplier or another;

- the use or disposal of *existing assets* – such as whether to sell off land or replace facilities by cheaper ones;
- *standards* of design or provision – such as setting standards for insulation, lighting, or design of buildings; for environmental quality; for replacement of vehicles;
- *current expenditure options* – such as the choice of maintenance schedules;
- more generally, the appraisal of *specific policy proposals* – whether or not, or how, to change the method of operation of any public service resource expenditure to save costs and/or improve effectiveness.

Expenditure proposals also vary in level and in size.

The same money should often be appraised at successive levels. This might be first as part of a major investment decision, then in the appraisal of a major component option, and finally in a small equipment purchase. Each level of decision needs its own appraisal procedures.

Small expenditures, such as office equipment and other running costs, generally justify less detailed appraisal than large expenditures. On the other hand these small items can add up to substantial totals and the principles of appraisal still apply. Departmental guidance on small expenditures is discussed below under the heading of 'Guidance'.

Common objections to appraisal

There are some stock objections to appraisal. Each has an element of truth and offers useful lessons. Most common are the following:

(a) 'Expenditure decisions are often political. Working out the economic costs and benefits in such cases is a waste of time.'
Political priorities often lead to 'non-economic' decisions. The importance of formal appraisal is that it makes evident to all concerned the cost of taking a decision on political grounds.

(b) 'Formal appraisal rarely tells you anything that is not obvious. In any case there is often no sensible alternative to the action proposed.'
This is heard especially in the case of decisions to renew rather than extend capacity where established standards are taken as immutable. In practice, the best option is often not 'obvious', even if at first it seems so. Appraisal often generates better options. On the other hand, appraisal procedures can degenerate to a ritual to get 'common sense' proposals through procedural hoops. In this case, attitudes or procedures need overhauling.

(c) 'It is impossible to appraise services such as health, education, or defence whose outputs cannot be valued in money terms.'

There is some scope for valuing public service outputs and the techniques for doing this are slowly improving. Even where outputs cannot be valued, a careful description of the benefits of options, combined with an analysis of their costs, is still an important aid to decision making. In the public services, the choice is often between different ways of producing the same or similar outputs. Formal appraisal is especially valuable in these cases.

(d) 'It is not realistic to develop and apply appraisal procedures without extra resources to do the extra work.'
The use and maintenance of efficient appraisal procedures should not impose major extra demands on staff. Much can be achieved through training and making better use of existing posts, including specialists. The cost of well-managed appraisal is generally very small compared with the savings which it achieves.

(e) 'Economic appraisal is pointless in an uncertain world: judgement by experienced professionals is better.'
It is true that over-precision can be unhelpful and misleading. However, in most respects, uncertainty increases rather than reduces the need for systematic appraisal.

Arguments also sometimes stem from misperceptions of the wider consequences of decision – for example that expenditure once voted is 'free', or that at a time of financial stringency all expenditure is 'necessary', there being nothing left for 'discretionary' expenditure for which appraisal could be appropriate. These arguments have little force. All expenditure on resources has a cost: the output that could otherwise have been produced by the resources.

Financial stringency strengthens the need for appraisal to ensure that projects yielding the greatest benefits are given priority. The one point of substance is that, if there is reason to believe that financial constraints will be more severe at one time than another, there is a case for giving more weight in appraisals to expenditure and savings in periods of greater stringency.

Preconditions for effective appraisal

To be fully effective, appraisal should:

(1) be the norm in all areas of expenditure approval or decision making;
(2) be carried out early in the expenditure approval process, before options are closed off, and, if necessary, be reviewed at later stages;
(3) be carried out in sufficient detail and with examination of sufficient options for the nature and size of expenditure involved;

(4) be based on correct, up-to-date technical criteria, properly interpreted;
(5) be given due weight in decision making.

Many conditions are needed for these requirements to be met. Most important are the following.

Attitudes

Appraisal demands flexibility, imagination and initiative in analysis and decision making. It should be seen as a way to obtain better decisions, not as a ritual. It is especially important that senior staff give a high priority to value for money and understand the contribution to be made by good appraisal.

Looking for value for money means a willingness to consider open mindedly what a proposal is really meant to achieve, and how its effect can best be quantified, or at least described; a willingness to consider alternative options – often including the 'do nothing' option; and a willingness to give the results of appraisals proper weight in making recommendations and in taking decisions.

Appraisal, by comparison with the application of predetermined standards, should be seen as making the job more flexible, and therefore more demanding, but also more interesting.

Responsibilities

Responsibilities must be well defined. It must be clear whose job it is to demand the appraisal, and when; and whose job it is to carry it out; and whose to check that the procedures have been applied.

One major theme of the current drive for better financial management is that of delegated authority. Line managers should be allowed more responsibility by their central divisions; spending departments likewise by the central departments. This applies to the appraisal of both programme and administrative expenditure.

It is therefore generally the responsibility of policy and executive divisions to carry out appraisals, drawing on expert advice where appropriate. They are best placed to do it. Nonetheless all the key conditions for effective appraisal depend crucially upon finance divisions. It is for them to establish procedures, to ensure that they are properly applied, and to ensure that they are kept up-to-date.

In some areas, such as property and computers, the responsibility for expenditure decisions is divided between departments. In these cases, the responsibilities for undertaking and checking appraisals must be clearly defined, and each party should seek and be supplied with all the information which it needs from the other.

Authority is also delegated from departments to other bodies, be they nationalised industries, other public corporations, fringe bodies, or health authorities. This too is consistent with the current concern with management responsibility and raises the same problems. In all such cases the delegating body remains responsible for ensuring that the delegated authority is used efficiently. Analogous issues arise with expenditures by local authorities.

Where authority is delegated, robust procedures to ensure that appraisal is effectively applied are especially important.

Guidance

Those concerned must have up-to-date written guidance, both procedural and technical. This nearly always requires departmental guidance from finance divisions which is consistent with, but supplements, Treasury and other central guidance. It is often helpful for departments to consult the Treasury when preparing their own guidance.

Technical guidance needs to cover both the technical criteria to be used and sources of further advice. Some of the technical issues which are the most common sources of error and on which guidance is most often required are:

(1) *Considering too few options:* Expenditure decisions where there are no realistic choices are rare. There is always the 'do-nothing' option and there will usually be choices as to the size, form, or timing of projects. It is important that options are not ruled out solely because of differences in technical performance without an examination of comparative costs.

(2) *Confusing real and nominal (ie cash) values:* It is the values of benefits and costs in real terms – that it, abstracting from changes in the general price level – that matter in an appraisal. Changes in the price of particular goods and services relative to the general price level should, however, be taken into account.

(3) *Overlooking some costs:* In cost-benefit and cost-effectiveness appraisals, and to a more limited extent in commercial appraisals, costs should be taken into account even if they do not actually involve spending cash. In particular, the value of land, of existing buildings, and of all services provided by other government departments should normally be included; the only costs that can be ignored are those that have already been incurred and which are for items with no alternative use, or those common to all options.

(4) *Using inappropriate time horizons:* Time horizons need to be set in a sensible way in relation to the likely economic lives of assets. Residual values should be included in the appraisal for any assets that could be sold at the end of the period covered by the appraisal, or continue to have some value beyond that time.

(5) *Ignoring uncertainty:* Events seldom turn out as expected and this often needs to be taken into account, either as a future possibility or as it occurs. There are formal techniques for allowing for uncertainty. Departmental procedures should specify when these should be used. They should also specify when changing circumstances require a reappraisal.

(6) *Failing to quantify relevant factors:* In cost-benefit or cost-effectiveness appraisals, factors such as non-marketed outputs or important environmental effects should not be ignored, even if they cannot be valued. Often they can be quantified in physical terms – so many extra hospital discharges, so many decibels of noise. At least a description of important effects of this kind should always be included.

(7) *Failing to discount future costs or benefits:* Resource costs and benefits occurring at different times are not equally valuable and should be discounted back to a common base date. This should be done using the test discount rate (TDR) which is 5% per annum in real terms.

(8) *Confusing resource costs and transfers:* Some public expenditures buy goods and services. Others, such as social security payments, only transfer money from one group of people to another. Both kinds of expenditure have to be raised by taxation. However, only the first, often described as 'resource costs' (or, as appropriate, resource benefits) draws directly on the resources available in the economy. Appraisal is concerned mainly with resource costs. It may be useful to record separately any transfer payments, but transfer payments and resource costs should be clearly separated.

Technical guidance must be periodically updated by staff who are competent to assess and revise it. It will otherwise be found that technical conventions are applied to cases to which they are inappropriate.

Procedural guidance should cover:

(1) Who is responsible for:
— undertaking appraisals;
— vetting appraisals;

(2) The type of appraisal to be undertaken for each major 'family' of decisions within the department: for capital projects, the procedures should require that any decision *not* to undertake a full appraisal should be for very good reasons which should normally be placed on record;
(3) The timing of appraisals.
(4) Documentation. This may include, for the presentation of some appraisals, standard proformae, although these must be used with care as they can discourage imagination or make appraisals more elaborate than they need be;
(5) The procedures for vetting appraisals;
(6) Requirements for monitoring outcomes.

Procedural guidance is needed for small as well as large expenditures. Many small expenditures are covered by departmental standards, but this has its dangers. Standards are sometimes taken as mandatory even when they are not appropriate to the particular circumstances; and the standards themselves need to be periodically reappraised. Very short term, but powerful, pressures for more or less expenditure on small items can also arise from annual cash limits. There should be clear guidance on the handling of these special circumstances.

Less clear cut are the needs for procedural guidance in the checking of proposals by other bodies. Sometimes propriety alone demands that this is formalised – for example, in the processing of some categories of industrial assistance. In other cases, the checking organisation will focus on the procedures used by the proposing body and the quality of its appraisal. Sometimes the technical criteria applied by the checking department will not be exactly the same as those applied by the spending body. For example, the former may be concerned with the wider national interest and the latter with the body's direct commercial interest. Judgement is needed to decide which criteria are appropriate for the particular case.

Maintaining the appraisal procedures

There must be effective procedures for maintaining the appraisal procedures; for checking, perhaps by sampling, that they are properly applied and that they are kept up-to-date. More generally, appraisals can be improved by lessons from the past. This requires monitoring of the outturn of expenditure decisions against that expected when the decision was made.

These tasks are a key responsibility for the higher levels of finance and line management divisions. Internal audit should also take a keen interest in how well they are performed.

A role is also played here by external audit: investment appraisal is an area in which the Exchequer and Audit Department is developing an increasing interest, as a part of its expansion into value for money audit*.

Expert Advice

Much of the work in a typical appraisal can be carried out competently by officials of any discipline given proper training. Specialists are needed however:

(a) to provide and interpret technical or technically derived information. This may be engineering, scientific, or economic data; or data from a management information system; or forecasts of economic or other variables;
(b) to deal with *ad hoc* problems of technical methodology;
(c) to help with developing the department's procedures and in checking that they are being properly applied and kept up-to-date.

Item (a) may need to draw on any specialism. Items (b) and (c) must draw mainly on departmental economists or accountants or others who have been trained thoroughly in, and keep up to date with, the economics of public sector appraisal. It is important not only to have an adequate number of specialists, but also to have them well integrated into the work of the department, if they are to provide an effective input into the appraisal process.

Specialists in the central departments are responsible for the development of central guidance on appraisal. They can also provide supplementary technical advice. Enquiries to the Treasury may be addressed to the Public Services Economic Division (01-233 4306).

Training

Those concerned must have adequate skills and training. This normally requires internal training by departments, and external training. However, training in this area is rarely effective unless it is immediately used by the trainee on his or her return to work.

The main source of external training is the Civil Service College. This provides a number of courses on the principles and practice of appraisal.

Courses on appraisal are also provided by a number of outside bodies, especially business schools and management consultants. These are typically oriented towards the private sector and concentrate on commercial appraisal. Issues such as financing and taxation are normally treated differently in central government and private sector appraisals; such courses are therefore relevant mainly to staff who need to understand private sector practice in detail.

* See 'Evaluating "Value for Money"' by K J Sharp on pages 250–260 of this issue.

Advice on any aspect of appraisal training can be obtained from the Director of Economics and Financial Management at the Civil Service College.

Incentives

There must be effective incentives for good appraisal. These may range from the criteria for personal annual reports to the ease with which expenditure proposals win approval. Trading bodies should be given financial frameworks which encourage sound expenditure decisions.

It may be found that procedures specified centrally appear to stand in the way of good departmental incentives, or provide misleading incentives of their own. Such cases should be raised with the relevant central department and, where necessary, the case made for change.

This list of conditions is not complete. Appraisals can go badly astray if the information used is inaccurate – especially if, as can often happen, estimates of, for example, future costs or savings, construction times, or demand for the product, are optimistic. The quality of appraisals can be enhanced by better information from management information systems or other sources.

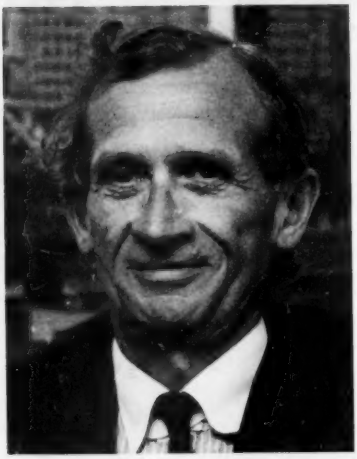
Formal procedures are now used, or being introduced, for a range of expenditures across a range of departments. They include procedures which, where effectively applied, can score well against the conditions listed above. Most are for capital expenditure proposals of a kind which arise frequently, so justifying a well formalised procedure. Many expenditure proposals are not of this kind. Some need to be appraised *ad hoc*: this requires procedures which are no less firm in ensuring that an adequate appraisal is undertaken, but which allow greater discretion as to exactly how this is carried out.

The conditions described here are an ideal. There will always be room for improvement. However, examination of each of the many areas of expenditure and levels of responsibility in a department, against each of these conditions in turn, will show where the highest returns can be expected. Especially important is how the conditions interact. Excellent guidance may be useless if its application is not checked, responsibilities are not well defined, or those using it are not adequately trained. Training is likely to be useless unless the department can make immediate use of what is taught.

The most important condition is the attitude of mind within the department. Success on any front is difficult unless and until seeking value for money is seen as a major part of the job.

A Commercial Common Service

W J Sharp



Bill Sharp has been Controller and Chief Executive of Her Majesty's Stationery Office since January 1981. He was formerly Controller of PSA Supplies.

Introduction

This is about the effect on HMSO of its transition on 1 April 1980 from its traditional 'Allied Service' basis (under which Parliament voted funds which HMSO used to buy goods and services for its customers) to A Trading Fund basis, a totally commercial system under which HMSO buys and sells at arm's length just as in the private sector. It also analyses the effect of enabling Exchequer customers who were formerly 'tied' to HMSO to take their custom elsewhere.

The coming about of the Trading Fund

Though the Allied Service system had worked pretty well on the whole owing to the integrity and self discipline of the Service I am strongly of the view that repayment by its customers provides a much more rigorous financial framework. If you have to pay for what you receive, you are much more likely to tailor your demands to the minimum, with beneficial results not only for your own finances but on your suppliers.

HMSO had been working for so long on well established procedures and systems under the Allied Service regime that the introduction of repayment

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and a modern management accounting system, coupled with the untying of its customers, was a real culture shock. The prospective change was viewed with grave doubt and apprehension that it would lead to an uncontrollable run-down and even total failure. The reality turned out to be very different.

Managing the Fund

A Trading Fund, while not necessarily increasing management burdens, considerably changes the emphasis. The Accounting Officer of a Vote department keeps his eye on the expenditure out-turn; the Chief Executive of a Trading Fund keeps his on the bottom line of the revenue account. Capital, liquidity and return are of vital importance, particularly when as in the case of HMSO the initial capital is supplied by loans from the National Loan Fund at a historically high interest rate of 15¼%.

It is essential for HMSO to meet its statutory duty to break even in historic cost terms, after long-term interest, and also to earn a 5% return on the net capital employed in the business in current cost accounting terms. These two financial targets immediately concentrate attention upon reducing capital employed wherever possible: reducing debtors, treating creditors more realistically than in the past, reducing work in progress, ensuring that large sums are not held up by inefficiencies in the accounting and computing processes, and keeping a tight control of the investment programme so that capital is invested only if it can earn a good financial return. New procedures to appraise investment decisions have been worked out which are well up to the best standards of the private sector.

Effective management is crucially dependent upon an accurate and timely management accounting system. HMSO now possesses one (MAS) which is perhaps the most comprehensive in the public sector.

HMSO is restricted by statute to trading with the public sector – and is subject to the traditional Civil Service constraints on terms and conditions of employment. Pay is still centrally determined, though the policy of the present Government towards merit pay and incentives may possibly supply that missing weapon to the management armoury. Performance must be rewarded to be encouraged and promotion is not always the sensible answer and is less available in today's leaner organisation.

Manpower consequences

On 1 April 1980 HMSO had 6,236 permanent staff. On 1 April 1983 it had 4,361. This does not represent a disproportionate share of the Government's general policy of slimming down the public services nor a reckless pruning for its own sake. The reduction has been dictated by market forces.

As a result a security press and a telephone directory press in North London, the Cardiff bookshop and some reprographic units have been closed. The Department has concentrated on its principal role of serving Parliament and government. In all there has been a reduction of HMSO manpower of more than 30%.

On the positive side HMSO has committed some £15m in new investment in the most modern book distribution unit in Europe, the Publications Centre at Nine Elms, and a new Hansard Press for Parliament. Work is underway on two further printing works in the London area to meet parliamentary and security needs with the most up-to-date and cost-effective production techniques available. These investments of several million pounds will provide better, more productive, and more secure jobs for the future.

The staffing of these jobs is a matter of increasing importance, and sometimes of difficulty. As the demands on managers have changed, so in turn have their requirements of their staff. Managers are much less willing (and less able) to retain those turning in a less than satisfactory performance. Conversely, those staff who seem to be contributing to the success of the business are the more highly valued, and less willingly released. Keeping a good man where he is doing a good job weighs more heavily that it did, and the frequency of posting has noticeably decreased with consequent benefit to professionalism and continuity.

Departments to customers

The changes have not just been internal. Government customers were freed from the obligation to come to HMSO from 1 April 1982 if they could find a better deal elsewhere. HMSO had to move quickly to keep its markets, and negotiations were started to secure agreements with those departments so that we knew what size of the market we had to plan for.

This change took place against the background of recession which led to falling demand not only from government customers but also from other public sector customers whom HMSO had traditionally served on repayment terms. Scarce resources and more competitive markets as suppliers fought to find buyers caused many customers to review their traditional sources and to compare price, quality and service much more keenly than when goods and services were provided 'free'.

HMSO therefore developed indicators to show how other sources of supply compared. These showed HMSO in a favourable light. HMSO has traditionally maintained close links with its customers, but the new alertness to market needs – accelerated by the use of special reports on visits to customers – has made staff across the organisation much more aware of practical realities. The annual conferences with government customers, traditionally directed towards advising Clerks of Stationery

what to do, have become re-oriented towards a forum for listening to and exchanging views with a wider and more representative body of customers.

Management plans are now more geared to take account of customer needs. Warehousing is being rationalised, economies for large-order quantities permitting direct delivery from suppliers are being offered, a new mini-computer system will speed up the office handling of orders from customers, stock levels are being managed particularly carefully to minimise holding costs and keep prices down, whilst still ensuring satisfactory availability. Stock catalogues have been redesigned in a modern, easily understandable style; a 'specials' catalogue has been introduced; regular newsletters keep 20,000 delivery points in touch with what is happening – and why; and new investments are being undertaken in the invoice handling/billing area so that over the next few years HMSO can increasingly quote fixed prices to customers and then bill them promptly on delivery without being so dependent on suppliers' invoices.

These changes are taking place within a more coherent corporate framework. The systems that have been introduced form an interlocking system of controls throughout the organisation so that, while the individual businesses within HMSO are able to operate effectively on delegated authorities, the organisation is still managed as an entity.

Changing attitudes

The Trading Fund has led to major changes. These have sometimes been unpalatable: no one likes seeing promotion opportunities diminish, colleagues retiring early, or even made redundant. Yet, however unpalatable, clear-cut direction has been welcomed after years of uncertainty about the future. Fears were initially high as cutbacks were made but it rapidly emerged that tight control of resources was crucial in order to secure the future. And as the results are starting to come through with many old customers remaining and new customers being won, staff are beginning to feel more secure.

The structure of the organisation has been changed from one where central functions predominated, with a cramping effect upon both the authority and speed of response, to a leaner, decentralised mode where the people at the sharp end are directly accountable for their results.

The new frame of reference at the top has impacted right down through the organisation. The former assumption that civil servants have a secure job for life has been significantly modified. Additional business is not now enough. It has to add to HMSO profitability. Staff are now keenly aware that their future ultimately depends on what they can do for their customers.

The Trade Union Side of HMSO have played a most responsible role. They have generally co-operated fully with management in accepting the need to slim down the organisation to make it commercially viable. Indeed, they have taken the lead in urging a more positive marketing effort in an attempt to extend the customer base and thus secure the jobs of more of their members. The industrial unions too, while vigorously resisting the closures that have unfortunately been necessary, have negotiated realistically by accepting the use of new technology involving different methods of working and lower manning levels.

Trading Fund disciplines

How is all this controlled and directed? The Management Group – myself and four senior colleagues – meets weekly to review progress and take decisions on major issues. Authority is delegated extensively, but the results are closely monitored.

Each operating division is accountable for achieving its financial target, and their Directors are required each autumn to review performance over the preceding year and to explain any shortfall on their five-year forward plan.

Perhaps more importantly, current performance against budget is assessed monthly. This ensures that management are kept on their toes and that there is an effective control of pricing, investment and resources consistent with strategic aims.

Facing the future

HMSO places some £160m business a year with its suppliers and is fully in line with the Government's Public Purchasing Initiative to help make British suppliers more competitive, and has an important role in helping to carry through this policy, particularly in key new technology areas.

HMSO looks to the future with confidence, having come through the traumas of transition to Trading Fund disciplines, repayment and untying. Our customers are generally satisfied that the price and service HMSO can offer is competitive with those commercially available. Moreover they recognise the benefits for them in the existence of a large supplier with considerable purchasing power who exists to serve them and not to milk the market.

A leading firm of consultants recently looked at what distinguishes successful from unsuccessful organisations. They identified eight characteristics:

(1) simplicity of approach and lean staffing;
(2) closeness to the customer: 'well managed companies are customer driven, not technology driven, not product driven, not strategy driven';

(3) a continuing productivity improvement through better use of people (quite apart from new investment);
(4) operational autonomy to encourage enterprise;
(5) stress on one key business value, for example the relentless pursuit of cost reduction;
(6) sticking to what you know (or do) best;
(7) tight control of key variables, flexibility for the rest;
(8) zest for action.

I would like to think most of this applies to the HMSO Trading Fund.

Evaluating "Value for Money"

K J Sharp

Ken Sharp was, from November 1975 until October 1983, the Head of the Government Accountancy Service and Accountancy Adviser to the Department of Industry. This article is based on his address to the Institute of Cost and Management Accountants' Annual Conference on 16 September of this year.

During the eight years which I have spent in the Civil Service a single simple phrase has permeated the body politic in a continuing crescendo: 'value for money' has been the watchword of politicians of all parties, advisors to Ministers, civil servants, local government officials, the press and the public. In general, it is seen as something which everyone wants and the system fails to deliver. No one attempts to define it, save in the context of auditing, and yet everyone seems to know what it means. It is the purpose of this paper to examine how the pursuit of this nebulous, evocative concept is being carried out, to suggest that there are some misunderstandings inherent in the present pursuit and to offer some thoughts for the future.

I do not know when the phrase first emerged in the context of government operations in this country but it was certainly established by the mid-1970s, at which time there was serious discussion of what has become known as 'value for money auditing'. Old hands in the Exchequer and Audit Department will tell you that this is what they have been doing for years, indeed since the turn of the century. I believe that in the past the

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output of that Department in the form of its reports to Parliament, and thus the Public Accounts Committee, has tended to tell the story of individual episodes where things have gone wrong rather than to report on the performance of departments in a systematic audit-oriented way.

However, before considering audit issues in any detail it is desirable to explore the emergence of the concept rather more fully – after all audit is a second stage operation and it is not possible to express any form of audit opinion unless the purposes of the organisation being audited and the form in which it reports are fully understood. The pursuit of value for money stems, very largely, from the prevalence of two factors in the public sector. The first of these is that many of the activities of the public sector have outputs which are not capable of measurement in financial terms and the second is that even where the outputs are capable of such measurement the public sector entity is very frequently a monopoly supplier. A consequence of the first of these factors is that it is impossible to measure a profit in the normally accepted accounting sense, and the second factor means that even where a profit can be computed arithmetically its usefulness as a measure of satisfactory performance is significantly vitiated. It is worth noting here that these factors are not peculiar to the public sector. For example monopolies are a well-known feature of the private sector scene, and many charities have outputs which cannot sensibly be measured exclusively in financial terms.

The absence of useful profit measures, by which performance in the commercial sector is normally judged, has led to a requirement for an alternative measure. The demand for this surrogate has intensified in a period when a significant slowing down of general economic growth accompanied growing pressure on public expenditure. This has coincided with the emergence of a belief, now almost universally held by the general public, that all public sector administration is accompanied by widespread waste and inefficiency. Examples quoted from time to time, particularly in the Reports of the Public Accounts Committee, encourage this belief which is exploited by politicians of all hues and the media for their own purposes. Thus a recent writer in *The Times* put it:

> 'State spending, however desirable its objectives, tends by its methods towards waste and towards an order of priorities which more reflects political pressures and bureaucratic vested interests than either common sense or the greatest need.'*

In quantitive terms it is difficult to form any clear judgement as to how significant waste and inefficiency are in the public service but the absence of market forces may reasonably be presumed to exert some pressures in the wrong direction. In any event, there is no doubt that the operational

* 'When is a Cut not a Cut?' by R Butt, in *The Times*, 28 July 1983, p 12.

performance of the public sector is now a matter of general political interest and that, in the absence of any satisfactory way of measuring that performance, the public's current unfavourable impression may be expected to be reinforced by sensationally presented, anecdotal and unscientific evidence.

The United Kingdom is by no means alone in facing this problem: indeed it is probably correct to say that the issues associated with the pursuit of value of money are of a world-wide nature and not even restricted to the western democracies. Particularly valuable work has been done in this area in the United States and Canada.

Notwithstanding the lack of any clear guidance or system of measurement to ascertain whether or not value for money is being obtained, the lead across the world in reporting on performance has generally fallen to the auditor in some way or other. This seems to have arisen from the identification in the public mind of value for money with the avoidance of waste and other maladministration. At the same time that part of the auditing profession which has been involved with the public sector has itself formalised auditing responsibilities under the two main headings of (1) Financial Propriety and Regularity and (2) Economy, Efficiency and Effectiveness (the three 'E's). While the latter has colloquially been termed 'value for money auditing' the legislators have wisely avoided the incorporation of this phrase in legislation. Nevertheless the two phrases are so widely identified as being synonymous that Price Waterhouse, when they recently published their *Value for Money Auditing Manual*[1], subtitled it *The Investigation of Economy, Efficiency and Effectiveness in Local Government.* It is the view of this writer, without criticising this otherwise valuable volume, that this synonymity is undesirable. Corroboration of this lack of identity appeared, at least in part, in the May 1983 issue of *Management in Government* at page 80 where Sir Anthony Rawlinson indicated one of the major objectives of the Government's financial strategy as being 'to promote efficiency *and* value for money throughout the public sector' (my italics)[2].

Before going on to explore this line of thought further it is worth considering the developing legislative framework in the UK. Two recent Acts are instructive in the different phraseology which they use in relation to the three 'E's. One is the National Audit Act 1983. (It will be recalled that this Act passed through Parliament as the Parliamentary Control of Expenditure (Reform) Bill[3] or more colloquially 'The St John Stevas Bill'.) section 6 (1) reads:

[1] *Value for Money Auditing Manual* by Price Waterhouse, Gee and Co., 1983.
[2] 'Treasury Control of Public Expenditure: some recent Developments' by Sir A Rawlinson, in *Management in Government*, May 1983, pp 79–89.
[3] *Parliamentary Control of Expenditure (Reform) Bill*, Bill 19, HMSO, 1982.

> 'The Comptroller and Auditor General may carry out examinations into the Economy, Efficiency and Effectiveness with which any Department, Authority, or other body to which this section applies, has used its resources in discharging its functions.'

It is generally accepted that the purpose of this section is to provide firm legislative backing for the activities which the Comptroller and Auditor General (C&AG) has been carrying on for many years, at least in central government. It is interesting to note two important points. Firstly the word 'examinations'. There is no suggestion that the C&AG is auditing; secondly the use of the past tense. The examinations are to be directed to how the body *has used* its resources. There is no suggestion that this is other than a retrospective review of past performance.

This approach can be contrasted with the Local Government Finance Act 1982 where section 15 (1) reads:

> 'In auditing any accounts required to be audited in accordance with this part of this Act an auditor shall by examination of the accounts and otherwise satisfy himself . . . (c) that the body whose accounts are being audited has made proper arrangements for securing Economy, Efficiency and Effectiveness in its use of resources.'

This phraseology carries a much stronger recognition that it is the duty of management actively to 'secure' the three 'E's with a view to the future, in contrast to the National Audit Act which has much more the ring of a post mortem: absence of the words 'proper arrangements' in the National Audit Act is more than a matter of mere semantics, and if Parliament uses different words presumably it intends different things. A further important aspect of the distinction between the two Acts is the likely approach of the auditor in response to his duties. The C&AG is likely to continue to provide Parliament with accounts of individual incidents where matters have not been conducted in an efficient or effective manner, for the Act does nothing to encourage the spread of the systems oriented approach now being developed in relation to the regularity audits conducted by the C&AG. Perhaps this will meet the needs of the Public Accounts Committee which, one suspects, derives considerable enjoyment from the discomfiture of accounting officers in relation to these horror stories. It must be doubtful however whether this is the most constructive approach to an examination under the National Audit Act.

Another interesting contrast between the two Acts is that the Local Government legislation clearly incorporates the three 'E's into the audit of the body whereas the National Audit Act seems to contemplate the

examinations as being separate from the audit. The latter approach is retrograde since there is, or ought to be, a close relationship between regularity work and economy and efficiency work.

Early drafts of the National Audit Act contemplated granting to the C&AG 'inspection rights to carry out Economy, Efficiency and Effectiveness examinations of the use of resources by Nationalised Industries . . .' thus clearly separating the concept of such examinations from the audit of those industries. It may be counted a good thing that these provisions were in the event excluded since they imply the extension of the same rather negative approach. The drafting of the Local Government Finance Act would be much more appropriate to nationalised industries making an extension of the existing audit provisions. Such an extension of the duties of the auditors of nationalised industries could be of great value, although the relationship of such an audit to the investigations carried out by the Monopolies and Mergers Commission would need to be clearly defined and explained.

Let us now look briefly at what is meant in practice by the three 'E's.
Economy is probably the most easily and objectively assessed, meaning in principle the avoidance of wasteful or unproductive expenditure. Nevertheless, there will be circumstances when there will be more than one view as to whether an item of expenditure has contributed to a useful output. Unless accounting systems record the purpose for which expenditure is incurred it is impossible to judge whether the programmes have been administered economically.
Efficiency is the maximisation of output relative to input. In some cases output can be measured in physical terms, for example the number of housing units or motorway miles constructed. Even so considerations of quality, for example the impact on the environment will enter the equation. In other cases the outputs will be almost incapable of quantification. In this way a substantial amount of public sector output differs significantly from the private sector although it should be noted that within the latter the impact of certain activities may be incapable of measurement, for example personnel management, corporate advertising etc. Where quantification of some kind is feasible it has become increasingly common practice to develop and use performance indicators to measure achievement. However this approach is not without its dangers and an over-enthusiastic and uncritical application of this technique must be guarded against. Where indicators are used to compare the relative efficiency of two or more units it is important to establish not only that the system of measurement is valid but also that the similarities between the units are sufficiently strong to make comparison justified. Sometimes the similarities are superficial. The dangers are reduced if several indicators are used but in all cases an understanding of the managerial realities is essential before reliance can be

placed on comparison of performance. Indicators can be a valuable tool for measuring management's success against target although this measurement, of course, ought to be accompanied by an independent assessment of the reasonableness of the targets. Nevertheless, notwithstanding their dangers, performance indicators should continue to be developed in the public sector and particularly in central government where the opportunities for measurement of achievement in pure financial terms are perhaps the most limited. They are a key factor in facilitating judgements of efficiency, and the manager who does not find ways of measuring his performance is less likely to act in a way which will maximise efficiency.

Effectiveness is the extent to which activities achieve their objectives. Its measurement involves determining not only which indicators are relevant but also whether there is any causal relationship between the policy pursued and subsequent events. It is generally accepted that effectiveness judgements should not concern themselves with policy issues. It is however crucial that the objectives of the policy should be clearly established, otherwise it is not possible to make judgements as to whether a programme is being successfully conducted. For example: Are investment incentives intended primarily to attract jobs? Jobs lasting a minimum period? Or of a particular quality? Or is the purpose of investment incentives to improve the performance of industry, which may in the short term or locally, have the effect of reducing the number of jobs? Effectiveness judgements may include consideration of whether different activities could have increased the level of achievement, though very often this can only be a speculative judgement. Objective assessment in this area is sometimes impractical but this does not diminish the value of management knowing in advance what long-term indications they expect to see to demonstrate that the policy has been effective.

When described in the above way it becomes apparent that the achievement of economy, efficiency and effectiveness is nothing more than good management, and conceptually there is no difference at this level between management in the public sector and management in the private sector. Any manager ought to buy in the cheapest market, he ought so to manage the operation for which he is responsible so that he maximises his outputs in relation to his inputs, and he ought to achieve the objectives which are clearly identified. It is, however, less easy for a manager to judge his own performance (and indeed for others to judge his performance) when the outputs are not capable of simple quantification; I suspect that this has been a major factor over a long period of years in not providing public servants with the incentive to develop the necessary modifications to management techniques and which in turn has led to the adverse public impression of their performance referred to earlier in this paper.

Thus far, therefore, I believe that I have established that economy, efficiency and effectiveness is something for which all good managers, be they in the public or private sector, should strive; and that, in the absence of clear objectives and reasonable measures of performance, the achievement of the three 'E's is a task beyond the capabilities of all but the most inspired, or lucky, manager. Further, that the public sector manager, who does not have the straightforward objective of making profits and simple financial outputs against which to measure his performance, must devote considerably more effort to the arrangements for the achievement of the three 'E's; and lastly that the achievement of the three 'E's is and is seen to be the major *raison d'être* of a good manager – in a sense, the achievement of the three 'E's is quite simply the effect of the application of good management.

Value for money, however, is to my mind something more. Whilst junior and middle managers may reasonably be judged on their achievement or otherwise of the three 'E's in implementing policy decisions, it is the policy decisions of the senior managers, both ministers and officials, of an organisation which come under consideration when we look at value for money.

The concept 'value for money' suggests an exchange: for 'money' you receive 'value' – money is the input, value is the output. Let us look at the input first. Clearly we are concerned with the *cost* of the input. In any set of circumstances there are usually several different ways of measuring the cost of an activity. Most of the common methods are used somewhere in the public sector, indeed most of them are used in various circumstances by central government. To know which measurement of cost is the most appropriate it is essential to know the purpose for which the information is required. If we are going to compare inputs with outputs it clearly becomes necessary to ensure that the cost that is reported is related to the outputs, in other words that it 'matches' the outputs within some convention which is understood by the users of the information. This of course is the underlying philosophy behind the development of the Ministry of Defence's ABC accounting system*, which seeks to report the cost of goods and services consumed during a period rather than the cash spent on their acquisition.

The identification of the most appropriate cost measure is of course critical. It is suggested that the underlying principle should normally be to report the *total* replacement cost of all the resources consumed in the activity since in this way the activity will be charged with the current value to the community of what it uses; in exceptional cases some other measure may be appropriate. Providing the conventions are clearly stated and understood the inputs are capable of reasonably objective measurement.

*See 'Management and Money' by Sir F Cooper, in *Management Services in Government*, February 1981, pp 5–20.

The outputs, 'value', on the other hand, are much more subjective. There is no necessary relationship between value and cost and the term is essentially one of subjective meaning except in the case of 'market value'. Even in that case value is the resolution of a very large number of individual subjective judgements. One person may think the price of a theatre ticket is worth the satisfactions which he anticipates he will receive from attending the show, another will think otherwise and prefer to buy a bottle of wine. A third will defer his satisfaction and leave the money in the bank. In other words, whether a particular output is 'worth' the input is not something capable of proof, and different people faced with the same costs will reach different conclusions; the more it is necessary to make these subjective judgements of value of outputs, the greater the importance of ensuring that total resource costs are included on the inputs side. This is as important for management as it is for other users of information; if the managerial objective is to achieve 'value for money' then the responsible judgement of what is good value must depend on knowing the money measurements. There is also an implication that managements must be accountable for all the resources which they consume. None of this is to deny management's right, in appropriate circumstances, to pursue a policy of, say, marginal costing in relation to a portion of activity where this leads to overall maximum benefit.

In relation to any expenditure we can ask questions at two levels:

(1) 'Is the output in its own right worth the expenditure?'
(2) 'Would the expenditure be better incurred in some other way?'

The first of these two questions can be asked in the absence of any consideration of total available resources. Is it a good thing to do *at that cost?* If the information about cost is not available there is a tendency to substitute the question 'Is it a good thing to do?' If the information about cost is misleading, for example if all the resources to be consumed are not reported it is likely that a different decision will be made from that in which the full costs were reported. It must, however, be understood that, because of the subjective nature of the judgement, at any given level of reported cost different people will provide different answers and the ultimate judgement is bound to be based on consensus or dominant view.

Question (2) above implicitly raises the issue of scarce resources. If resources were no problem then any expenditure which satisfactorily overcame the hurdle of the first question would be incurred. Resources are scarce – indeed may be said to be getting scarcer – and so it becomes essential to make choices and by the nature of things usually choices as to which expenditure should be left out, rather than looking for new things to bring in; thus there is no doubt that these are questions which give rise to

issues of policy, and therefore not questions which are decided in relation to the three 'E's, save insofar as economical and efficient operation will tend to reduce costs and make it more likely that the output is worth the expenditure. To think of matters in this framework, however, does tend to raise questions of a wide strategic nature. The switch of resources, albeit relatively gradual, from one main programme to another, may have important effects. A general undertaking to increase say the Defence budget by 3% per annum in real terms in present reporting conventions only looks at the money; the value consideration is whether the fire power which can be brought to bear on an enemy has increased by at least 3%. The current debate on whether the United Kingdom should maintain its own independent nuclear capability or whether it should increase its conventional forces is essentially a value for money judgement, and an observer of this debate will note the subjectiveness of the views being expressed.

In some ways Defence matters are an inappropriate example because by the nature of things we cannot be given all the information we need to make up our minds; other examples abound both between and within departments. The National Health Service is an outstanding example. What is the basis on which decisions are taken on the allocation of resources between paediatrics, geriatrics, heart transplants, arthritis, orthopaedics, mental illness – to name but a few? How does one judge preventive medicine?

Judgements of this nature have to be made by high level management and they also have to be made by Parliament, particularly in the context of its departmental Standing Committees, but neither can do their work satisfactorily without the information upon which they base their answers to the two questions above. In my view, over wide areas of government that information is simply not available.

It would be wrong to suggest that there is some simple overall format universally applicable which would satisfy all the needs which we have been exploring. The multifarious forms of government and other public sector activity are bound to require some variety in reporting forms. At one end of the scale the necessary information for users can probably be adequately met by a simple statement of cash expenditure, as representing a very close approximation to the resources consumed; for example, all transfer payments such as unemployment benefit and social security payments would sensibly be treated in this way. On the other hand such treatment is wholly inadequate as a measure of resources consumed where there are substantial stocks of materials and fixed assets involved in the provision of goods and services. None of this is to say that in such cases reporting cash movements is unimportant, only that it is insufficient to allow proper value for money judgements.

There are, of course, both prospective and retrospective dimensions, the former being significantly the more important. At the managerial level there have been substantial developments in recent years in the use of investment appraisal techniques, and in cases where the outputs are capable of reasonably accurate financial measurement it can be seen whether a prospective undertaking will meet whatever is the current figure required by the Treasury as the real rate of return. Where the outputs are less susceptible to such measurement equivalent appraisals are still necessary so that the resource costs are known before a decision is taken on whether or not to proceed. In this case, of course, it has to be accepted that the decision is likely to be more subjective in character. The Financial Management Initiative, as it takes hold in departments, will make a significant contribution to the usefulness of information for decision-making over a wide field.

At the parliamentary level there is need for the provision of information on a resource-costed basis in amplification of the estimates (which must inevitably and properly continue to be stated in terms of cash). In this respect I envisage the departmental Select Committees playing a substantially enhanced role in relation to departmental proposals, given that they are provided with information which enables them to comment constructively on departmental proposals. It is inevitable that there will always be a tension between departments and their Accounting Officers on the one hand and the relevant Parliamentary Committees on the other. What is important is that that any criticism should be constructive and lead to sensible suggestions which departments would welcome.

A re-ordering of the financial information of government along these lines (and it is no part of the purpose of this article to discuss the details of such a re-ordering) raises the question of any consequential amplification of the duties of the auditor. Having avoided the use of the term 'value for money' in relation to economy, efficiency and effectiveness auditing, is there scope for value for money auditing? It is clear that insofar as subjective judgement is used in decision-making it would be wholly inappropriate for an auditor to express an opinion on the decisions made. On the other hand it does seem to me that there is scope for the expansion of the 'proper arrangements' auditing approach to be extended beyond considering whether the body has made such arrangements for securing economy, efficiency and effectiveness in its use of resources to considering whether it has provided to higher management and Parliament information on resource costs which enable informed value-for-money judgements to be made. The actual outcome would not be subject to comment by the auditor unless a decision were clearly perverse.

In conclusion we can say that the achievement of economic administration, other than by chance, is dependent on management information and financial control systems being so organised that managers are aware of the full cost of the resources which they consume (as well as the cash flow implications of that consumption) and the purposes for which all expenditure is made. They should also assess which indicators are available or capable of being developed which when fairly interpreted will demonstrate how efficiently a programme has been implemented and how effective it has been in achieving its objectives. Information collected in this way should serve as a basis for future action in administering the same or similar activities. To the extent that managers are given control over the costs they incur, systems designed to meet these criteria are likely to lead to increased accountability. This, however, is no more than good management.

It is desirable that the provision of information to higher management, particularly in those areas where outputs are not capable of adequate financial measurement, should ensure that the selection of objectives be based on a proper anticipation of their full resource costs. The basis of information, although not necessarily drawn in identical forms should nevertheless be sufficiently compatible to enable these inevitably subjective decisions to be taken on sound foundations and for there to be the best possible chance that the management of our public sector institutions will provide taxpayers with good value for their money.

MINIS in MOD

D Omand

David Omand was appointed Head of Management Services and Organisation in the Ministry of Defence in 1982. He joined the MOD in 1970 after reading economics at Corpus Christi College, Cambridge, and has served in a variety of central MOD posts including three appointments in Ministerial Private Offices, most recently as Private Secretary to the Secretary of State for Defence in 1981 – 82.

Introduction

It came as no surprise to the Ministry of Defence that one of the first meetings to be held by Michael Heseltine as Secretary of State for Defence was with his Permanent Secretary, the Chiefs of Staff and the Chief of Defence Procurement to discuss the need for a new management information system in defence. In evidence to the Treasury and Civil Service Committee in 1981, he had already made clear his intention of introducing the MINIS management information system in any department he ran unless there was a system as good already in operation. Shortly after his appointment, therefore, the Defence Secretary announced:

> 'I intend to introduce a management information system for Ministers into my Department very soon. The Ministry of Defence is a large and complex executive Department and I have not yet decided on the detailed application of the system. But it will complement and link with the management control, information and accounting systems which already exist in the Department.*

* *House of Commons Written Answers*, 1 February 1983, col 64.

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The purpose of this article is to describe the work that we have done in the Ministry of Defence to develop that management information system for Ministers and top management. The article starts however with a discussion of the purposes of the MINIS system in general and the special characteristics and requirements of defence, which should put in context what follows. At the time of writing, we have not yet completed our first experimental round of MOD MINIS, and there is much work still to do, but I hope that this preliminary account will be of interest to the wider audience outside MOD, and in particular to those who may be engaged on the introduction of similar systems elsewhere in government.

Why MINIS?

The development of the MINIS system in the Department of the Environment, following a 1979 Rayner scrutiny, has been well documented although its origins have been traced further back as being 'a result of Michael Heseltine's personal experience as the Minister in charge of aerospace in the 1970–74 Conservative Government, and in the context of his knowledge of private sector management techniques'.[1] In his own writings, Mr Heseltine has referred to the need to manage the public sector positively, by setting clear objectives for policy and administration, by setting out a strategy to reach those objectives allocating responsibility clearly to individuals, and by introducing a method of monitoring progress to ensure that momentum is not lost or, if it is, that adjustments can be made to new circumstances deliberately and quickly.[2]

MINIS, as developed in the Department of the Environment, provides a by now well-tried framework for such positive management. Through the recording of detailed information about the Department's activities, costs and performance, MINIS provides the basis for Ministers and top management to review the work of the Department and the effectiveness of policies and so to decide on future action, including studies leading to changes in organisation and the deployment of departmental manpower and other resources.

MINIS involves therefore two inseparable components. The first is an information collating system, which involves calling on senior officials in the Department (normally at Under-Secretary level) to set out in a standard format information about:

(a) their part in the organisation, reporting lines, numbers and grades of staff, trends in staff numbers and so on;

[1] 'Management Information for Ministers: the MINIS system in the DOE' by A Likierman, in *Public Administration*, Summer 1982, pp 127–142.
[2] 'Ministers and Management in Whitehall' by M Heseltine, in *Management Services in Government*, May 1980, pp 61–68.

(b) their functions, defined in relation to the purposes of the organisation;
(c) the achievements of the organisation, in some detail, over prescribed past periods, developing as far as possible quantitative indicators, against which later performance can be assessed.

The second component is a cyclical process of analysis culminating in regular questioning, review of performance, objectives and strategy through face-to-face discussions between Ministers, their principal advisers, and the senior officials in charge of discrete areas of work. Each such cycle has been termed a MINIS round. The MINIS framework enables this process of questioning to be based on a total view of the Department taking account of the inter-relationships of different parts of the organisation, rather than management by exception. Binding these two components together is the work of a full-time MINIS Unit acting as the focus for the collection and collation of information, and as a source of 'creative tension' briefing Ministers for the MINIS discussions, logging the outcome, preparing future action programmes, including the commissioning of studies and consultations with the Trades Unions.

Complementing existing systems

From the outset the Secretary of State made it clear that MINIS in MOD would be concerned not only with administrative and headquarters staff costs but would have to take account of programme expenditure where relevant. MINIS would have to bond together existing information, accounting and control systems rather than simply overlay them. We therefore set out consciously to build upon the work already done in improving financial management in defence.

Of particular significance in the MINIS context, was the major study of Financial Accountability in MOD ('Reeves 2') completed at the end of 1981, which made recommendations for the introduction of a system of 'responsibility budgets' under which line managers, as budget-holders, would accept responsibility for achieving a specified level of performance in a defined area of activity against a financial budget. The aim is to make managers fully aware of the cost of the activities they manage and of their responsibility for controlling them; and to give managers greater flexibility, within such constraints as annual cash limits, to manage the resources needed to achieve their tasks. Translating these principles into concrete procedures consistent with the existing financial structure is not straightforward and trials have been instituted at a number of defence establishments.* An obvious step in our MINIS work has been to see how

*See 'Management of Defence' in *Statement on the Defence Estimates 1983*, Cmnd. 8951 – I, HMSO, 1983.

these responsibility budgets could be integrated into the MINIS framework, since the underlying purposes are so clearly the same.

The Defence dimension

The MOD does not just function as a Department of State, but also acts as the military headquarters for the three Armed Services, and through the Procurement Executive is responsible for the management of an equipment programme of almost £8 billion. In all, the MOD controls over 550,000 Service and civilian personnel; spends some £17.3 billion a year in gross; and collects annual receipts of some £1.6 billion, mainly for goods and services provided to external bodies. MINIS development in MOD has had to cope with both the size and diversity of defence activities. The absence of a clear dividing line between the Ministry and the Armed Services (compared, say, to the distinction there is between the DOE and the local authorities) complicates the task since the information which Ministers and top management need to have covers the whole range of defence affairs for which the Secretary of State is responsible to Parliament, and not just the small percentage of our staff who work in MOD headquarters.

A related point is that for the purposes of assessing performance and setting objectives there is no distinction to be drawn in MOD MINIS between the work of military and civilian staff. In MOD headquarters, many civilians work to service officers and there are (rather fewer) Service officers who work for civilian Heads of Division. For historical reasons the Royal Navy has been served at home by a largely civilian manned support organisation, whereas the Army has traditionally received much of its support from military Corps such as the RAOC and REME. The Royal Air Force receives support from largely Service-run establishments, which are manned in part by civilians – an example being the Maintenance Units responsible for the repair and overhaul of RAF equipment. It follows that the MOD MINIS system has to be neutral between its coverage of Service and civilian manned support. On the other hand, information about the 'front line' – the locations, readiness, and fighting status of all the combat units of the Armed Forces – is highly developed. In this operational area, evaluation of performance has also been developed to very high levels – the tactical evaluation ('taceval') carried out on RAF units to assess their readiness and effectiveness is a good example of the systematic use of performance indicators. Ministers have therefore seen no need to apply the MINIS system to the front line. The areas of Defence administration and support are, on the other hand, natural 'MINIS territory'. It should be noted however that there is no clear dividing line between what should count as 'front line' and 'support' with for example, 1st British Corps on the central front controlling its own integral field

workshops, with additional support from Command workshops in the rear area, and from the major repair depots in the UK. Many forward support units are thus under the control of Operational Commanders, who are responsible for their efficient administration, within resources and policy laid down by the appropriate 'sponsor' in MOD.

The diversity of defence support activity brings its own problems in trying to devise a common format within which information can be presented in MINIS. Support activities range from the very large such as the Royal Dockyards (the largest at Devonport employing over 12,000 industrial and non-industrial civil servants) to the small Recruiting Offices located throughout the UK. Almost every type of economic and social activity is represented within the defence fold, including research and development, storage and distribution and repair networks, the Royal Fleet Auxiliaries, tugs and port auxiliary craft, educational establishments ranging from the degree level to Service children's junior and primary schools, Service hospitals, medical and dental facilities and laboratories, a port, chart and map making, meteorology and oceanography and many other activities.

The effective operation of such a diverse organisation has to be based on the principles of decentralisation to senior line managers and of delegation down individual management chains. The basic structure is a 'federation' of five major management areas: the military and civilian central staffs, the three Service departments, and the Procurement Executive. Major issues of policy and management cannot however be taken in isolation within each separate management area, and the Secretary of State is able to look for functional advice to his principal advisers, particularly the Permanent Secretary, the Chief of Defence Staff, the Chief Scientific Adviser and the Chief of Defence Procurement. The top structure of the Ministry of Defence is thus not a single pyramid found in most Departments, but rather a matrix of interlocking functional and Service responsibilities. As such, it is some way from any businessman's ideal of a straightforward organisation.

Another difficulty in designing a defence management information system arises from the very long timescale against which defence programme and procurement decisions have to be taken. The position is different in degree if not in principal in ministries where Civil Service manpower is by far the major resource, and where decisions on policy priorities and on the allocation of departmental manpower can be taken as two halves of the same process. In Defence however we have consciously had to develop MINIS from the outset to provide a tool of information and analysis in the areas of administration and support, looking at the efficiency with which given policies are executed over a relatively short time span; while leaving to the separate long-term costing system the task of looking at defence priorities and the choice of new

weapons systems. The link between these runs in both directions. The result of programme decisions affects demands on the support organisation; and economies in administration and support release resources for enhancements to the front line both in terms of manpower cover and finance for new equipment. It is also of course the case that we look to MINIS to provide a tool for assessing critically the organisation and processes within the Ministry for policy making and long-term budgeting, to ensure that these are structured efficiently.

First steps

One of the Secretary of State's first steps was to ask the Director General of Management Audit in MOD to set up a small MINIS Unit, initially of two Principals and an HEO(D), as part of his central Management Services and Organisation Division. The MOD Management Audit organisation is well placed to provide the necessary 'creative tension' in running the MINIS process, since it brings together the different disciplines of internal audit, staff inspection and management services and acts as the focal point for management audits and efficiency reviews of the Rayner study type. The MINIS team has therefore been able to draw on a wide range of experience in the DGMA organisation, including specialists in many areas of defence support and a number of Service officers.

The first task of the MINIS Unit, assisted by Management Services staff, in February of this year was to draw up organisational charts covering the whole of the defence effort – an exercise which Peter Hennessy described in *The Times* as 'the process of measuring and mapping' (in a Whitehall brief headlined 'Viceroy Heseltine Charts the Bounds of his Empire'*). The organisation shown on the MINIS charts was taken deep enough down the hierarchies of command for Ministers to be made aware of the full range of departmental business – in other words until a discrete and relatively homogeneous area of work was reached. For each of the five management areas of the Department, the charts were drawn to show every post down to Head of Division/Director level with reporting lines and responsibilities, including a network of cross-reporting lines reflecting, for example, the joint responsibility of many finance staff both to their line manager (who may in turn report to a Service Board Member) and to the Principal Finance Officer and Accounting Officers. Over 570 such posts, mostly at Assistant Secretary/Brigadier and military equivalent level were shown. In addition, the charts included lines of command and of functional responsibility radiating out laterally from the Ministry to each

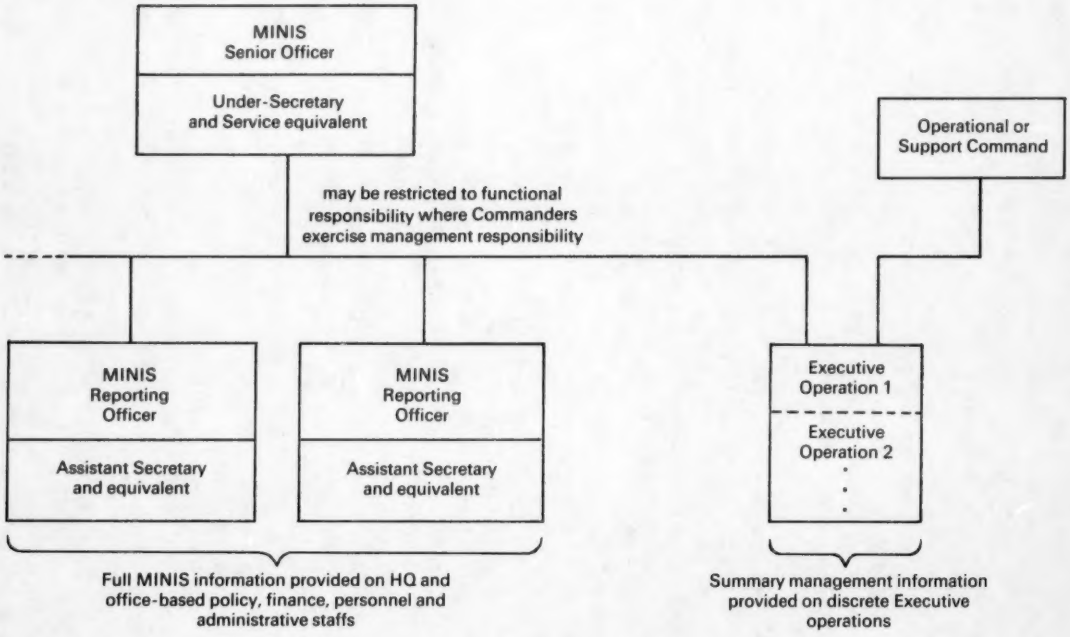
* 'Viceroy Heseltine Charts the Bounds of his Empire' by P Hennessy, in *The Times*, 8 March 1983, p 4.

separate line management unit in the field — the Service support establishments, training units, R&D establishments etc. Some 600 of these 'Executive Operations' were identified. For each HQ Division/Directorate and for each Executive Operation the chart showed the numbers of military and civilian personnel employed on 1 April 1983, and for completeness also identified the remaining military and civilian personnel in 'front line' Commands.

The information on the charts was of course readily available in different parts of the MOD, but this was the first time that a synoptic presentation had been available for Ministers and top management. From the charts a number of essential deductions for the framework of MINIS in MOD were made.

The first and obvious conclusion, already recorded, was that, since MINIS needed to encompass the entire administration and support of the UK defence effort (but not the 'front line'), the system should be neutral as between military and civilian staff, covering both in equal detail. When it came to select the level of senior management to be the accountable 'subject' of MINIS examination, the two-star level (Under Secretary, Rear Admiral, Major General or Air Vice Marshal) largely selected itself (as it had in the DOE) as being senior enough to make the number of reporting points manageable, while allowing Ministers to have meaningful discussions about reasonably discrete areas of work. One hundred and fifty-six such MINIS Senior Officers were identified – 93 Service and 63 civilian. In a few cases a higher or lower level than two-star was chosen as more appropriate. The MINIS framework had to accommodate the military command structure: in the case of the Royal Navy and RAF significant responsibilities for administration and support are delegated to the Commander-in-Chief Naval Home Command at Portsmouth and the Air Officer Commanding-in-Chief RAF Support Command at Brampton respectively. But for the majority of senior officers the structure was that shown in Figure 1, reflecting the reality of devolved administration in MOD, with a Senior Officer supported by his headquarters office-based staff organised through a number of Reporting Officers at Assistant Secretary and military equivalent rank (not of course by any means all in London). These office-based staffs deal with policy, finance, and personnel questions for a discrete area of support, and exercise responsibility of various kinds for a number of 'Executive Operations' in the UK and overseas, whose Commanding Officers, Directors and General Managers are in many cases already accountable managers. In a few cases the act of producing the chart threw up anomalies and inconsistencies in reporting arrangements which were either resolved at once by agreement, or flagged up for later decision in the MINIS process itself.

Figure 1


MINIS
Senior Officer
Under-Secretary
and Service equivalent
Operational or
Support Command
may be restricted to functional
responsibility where Commanders
exercise management responsibility
MINIS
Reporting
Officer
Assistant Secretary
and equivalent
MINIS
Reporting
Officer
Assistant Secretary
and equivalent
Executive
Operation 1
Executive
Operation 2
Full MINIS information provided on HQ and
office-based policy, finance, personnel and
administrative staffs
Summary management information
provided on discrete Executive
operations

At the end of this stage we were able to establish that MOD MINIS 1 could through the network of 156 Senior Officers provide detailed information about the activities of the 34,000 MOD office-based staff (5,200 Service and 28,800 civilian) as well as encompassing the activities of Executive Operations employing a further 243,400 staff (86,000 Service and 157,400 civilian): indeed, the system could refresh parts other systems could not reach.

Function and purpose

Having thus identified the Senior Officers, the Secretary of State called them together in the MOD to explain the key role which they would play in the MINIS system (the first time it must be added that this entire level of management had been brought together). In a series of follow-up seminars, DGMA and the MINIS Unit explained to the Senior Officers and their 'MINIS Liaison Officers' the information which would need to be collected, and sought their agreement to the conventions to be used to ensure consistency across the board.

An exercise was mounted to identify for each Senior Officer his 'functions' – a key word in MOD MINIS. In this exercise, which occupied much of March, the MINIS Unit collated and compared returns from every Senior Officer showing the principal functions of his part of the organisation, broken down where necessary into sub-functions. The importance of this step was that each of the Reporting Officers would be expected to show the time spent by his staff (which the MINIS Unit could cost by applying military and civilian capitation rates) together with an assessment of achievement, and planned performance, against every function, and sub-function. This follows the practice used by the Department of the Environment, described in the paper provided by Likierman for the TCSC enquiry in 1981.* The term 'function' is an apt one, since it carries with it the implication that the words chosen should reflect the purpose of the organisation, and its relation to the overall aims of defence, rather than just a description of activity.

The MOD MINIS 1 returns

The functions exercise just described was useful too in influencing the final shape of the MOD MINIS returns. We received valuable help from the DOE in learning about their forms, and how they had developed in successive MINIS rounds. It was decided to make some further, relatively minor, developments in producing the MOD returns to take account of the nature of defence organisation and work.

*MINIS-Management Information System for Ministers' by A Likierman in *Efficiency and Effectiveness in the Civil Service.* Third Report from the Treasury and Civil Service Committee. Session 1981-82, HC 236-III, HMSO, 1982, pp 49-61.

The initial pages, the 'form at a glance', were only slightly changed and we decided to give greater prominence to the forms for each Senior Officer headed 'Key Objectives for Change'. This was done because many Senior Officers have extensive managerial responsibility for Executive Operations: future strategy for the area in question may well not emerge as simply the sum of the 'planned performance' (to use DOE terminology) at the Reporting Officer level. Each Senior Officer has therefore had in MINIS 1 an opportunity to express his objectives for change both in relation to individual functions which he performs, and in terms of the overall size and direction of his organisation. These 'objectives for change' (and in some cases their absence) have already proved to be a useful starting point for discussion of the returns with Ministers.

For the Executive Operations a summary return was designed, developed from the 'Quango' return used by the DOE (which was itself used for the very few MOD Quangos). In the first experimental MINIS 1 round we have been simply looking to establish for the Executive Operations their task, size and cost (not just their staff cost but also the balance of their operating costs, a significant element for many of the operations); establishing the nature of cost and management accounts used (and some gaps were indeed discovered) and identifying any cash controls currently in use such as staff budgets, travel and subsistence and overtime budgets etc; and making a first attempt to identify suitable performance measures, though it was recognised that this area would need development in succeeding rounds of MINIS.

The information presented in the MOD MINIS returns is summarised in Figure 2. It will be noted that for Senior Officers in the Procurement Executive with responsibility for major projects an additional return was designed, to highlight the key facts about the management of their major projects. The form is designed to show up changes in planned cost and timescale, and the nature of key interfaces with other projects, important where the development of platforms and weapons/sensors is being undertaken for technological reasons by different project managers. It will also be seen that one DOE form was not included – that showing individual staff changes. This was done in recognition of the very much larger numbers of staff covered by MOD MINIS and the existence of a decentralised system of civilian staff allocations, a mechanism designed to monitor and secure the reduction of 19% UK-based in civilian staff numbers of the five years to 1 April 1984 which is in train.

The first MINIS round

The MINIS returns were largely completed by the Senior Officers in April. Since the exercise was being undertaken in the Spring, it was decided to capture information about past performance for the Financial Year

Figure 2

MOD MINIS 1 RETURNS

Return	*Subject*	*Coverage*	*Information*	*Period*
1(1)	Organisation and staff in post	All MINIS Senior Officers	Reporting lines, Internal organisation	
			Staff in post by grade, military and civilian	1.4.83
			Staff costs	1982/83
			Trend of staff numbers in post, military and civilian	1.4.81 to 1.4.84
1(2)	Executive operations	MINIS Senior Officers with responsibility for Executive operations	Function of unit or operation	
			Staff in post, military and civilian	1.4.83
			Staff costs	1982/83
			Balance of operating costs	1982/83
1(3)	Executive operations	MINIS Senior Officers with responsibility for Executive operations	Information on cash controls (staff budgets, overtime, travel and subsistence, delegated authorities etc)	Showing periodically, monthly, six-monthly etc
			Information on cash controls (full or partial management accounts, responsibility budgets, ABC accounts)	
			Future plans for executive operation, mergers, closures, moves etc	
1(4)	Non-departmental public bodies	As appropriate	Function of NDPB	
			Staff employed	1.4.83
			Gross expenditure, and amount Government funded	1982/83
			Relationship with MOD	
			Future plans, as appropriate	—
2(1)	Functions and costs summary	All MINIS Senior Officers	Functions exercised by Senior Officer and his staff	
			Specific vote/expenditure responsibilities and sums managed	1982/83
			Staff costs of carrying out each function	1982/83
2(2)	Key objectives for change	All MINIS Senior Officers	Key objectives for change in functions, responsibilities, organisation, management	1983/84 and 1984/85
3(1)	Details of functions – Cost and achievement	All MINIS Reporting Officers	Details of sub-function level including vote/expenditure responsibility	1982/83
			Staff costs	1982/83
			Achievement, against each sub-function	1982/83
3(2)	Details of functions – Forward look	All MINIS Reporting Officers	Details at sub-function level including planned performance, proposals for changes, major problems expected	1983/84 & 1984/85
4	PE project management data	Certain MINIS Senior Officers in the Procurement Executive	Major projects managed	
			Finance, development, production, post design services and support over 10-year costing, and in total.	For forward 10 years
			Cash limits, out-turn and allocation	1982/83 & 1983/84
			Comparisons with original costs and time-scales	to latest date
			Key interfaces with other projects	—

1982–83; and to record planned performance for the Financial Year 1983–84, when MINIS discussions would be taking place; and additionally, for each sub-function, to record outline planned performance – however hazy – for 1984–85. It was felt that adding this further year would produce a useful read-across during the following MINIS round.

May and June were largely spent by the MINIS Unit in collating the material, and carrying out costings of functions and sub-functions on the Management Services office computer facility. An operations room was set up where, under the direction of the MINIS Unit, temporary teams were formed from experienced Management Services practitioners and the relevant staff inspection and complementing division, to collate the MINIS returns and deal with enquiries from the Department. Special handling arrangements were needed to safeguard the material because of the security implications (which mean, that unlike the DOE, there are no plans to publish the MOD MINIS 1 returns). For those who collect statistics, the final MOD MINIS 1 is some 16 inches thick, compared to the figure of $4\frac{1}{2}$ inches recorded by Likierman (1982) for the 1981 DOE MINIS.

MINIS discussions

On the basis of the collated MINIS 1 information, the Defence Secretary is holding discussions with MINIS Senior Officers, supported by his Ministers, the Permanent Secretary and other principal advisers, and the superintending Board Members for each area of the Department under examination. At the time of writing it is too early to start cataloguing the changes which will flow from these discussions, particularly since initially they have concentrated on questions of organisation and responsibility. The MINIS process has, however, already helped crystallise a number of management principles in a form in which they can be directly applied in MOD:

- The clarification of objectives and responsibilities of HQ staff, and the matching of authority with responsibility, ensuring that the need to secure the most cost-effective use of the resources consumed is built into all managers' charters and terms of reference;

- The identification of discrete 'Executive Operations' whose manager, director, or Commanding Officer can be given real responsibility for meeting his task within the resources available, through the executive responsibility budget approach;

- The delegation of a greater measure of control over all aspects of their work to the accountable managers of Executive Operations operated on a budget;

- The introduction of a greater measure of competition in the provision of certain defence support activities to ensure that the best value for money is obtained and that there is continual pressure to innovate and introduce best practice techniques from outside industry and commerce into the MOD;
- Clarification of the respective roles of headquarters in policy, personnel and finance work on the one hand and the responsibilities of line managers for support operations on the other hand.

The future

This article has been about the development process that has led up to the production of the first MOD MINIS information, and its initial use by Ministers and top management. As a deliberate policy we have set out to learn by doing, and there are undoubtedly improvements which we can make both to the efficiency with which the information is collected and collated, and in the content and presentation of that information to Ministers and top management. As in the Department of the Environment, succeeding rounds will see a continual development of MINIS in MOD.

Internal Audit in Government Departments

J Isaacs

John Isaacs is a Senior Executive Officer in the internal audit development branch of the Accountancy, Finance and Audit Division of the Treasury. He joined the development branch in 1982, on loan from the internal audit unit in the Lord Chancellor's Department.

This article outlines how internal audit in government is being enhanced to play its proper role in improving financial management.

What is internal audit?

Internal audit functions by examining and evaluating the adequacy of other management controls. Internal auditors take one step back from the day-to-day business, examine what is being done and how it is being done and ask some basic questions. The questions posed are simple but the answers are frequently complex. The issues are looked at from a manager's viewpoint and within the framework of departmental aims and objectives. Auditors ask how managers ensure that the right things are being done and that they are being done efficiently and economically. What does a manager expect to be happening? What is happening? What could go wrong?

It is necessary to distinguish a boundary between policy and administrative action in pursuit of that policy. In opening the second reading debate last January on his bill which led to the National Audit Act,

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Management in Government 1983 (4) 274–278

Norman St John-Stevas said that 'the Comptroller and Auditor General has no power to interfere with policy or commercial judgements, nor has he the slightest desire to do so . . . his concern is not with policy aims but with the means by which they are achieved, whether there are adequate financial systems, whether management information is sufficient and whether the decision-taking systems are efficient'*. The same goes for internal auditors. They are concerned with the systems and internal controls which management have established to achieve certain objectives. And their concern extends to all systems in a department – not only its financial systems.

In a government department the primary purpose of the internal audit unit is to tell the Accounting Officer whether operations and systems are such that he is running a clean ship, and that the department's programmes and objectives will be met in the most economic and efficient way practicable. It also assists managers by measuring, evaluating and reporting on the elements of the internal control system for which each is responsible. Thus it has both an inspectorial and an advisory function. The aim is to promote good internal control. This broad aim is shared with the other review and advisory agencies in a department. Staff inspection is an audit of each department's manpower system – an independent examination of work and the numbers and gradings of posts used to perform it. It, too, has both an inspectorial and an advisory role. Skills in the family of 'management services' are essentially advisory. The 1983 Efficiency Programme, master-minded by the Cabinet Office's Efficiency Unit (it used to be called the Rayner Unit) includes a review of how such 'Consultancy, Inspection and Review Capabilities' are used and organised in selected departments. The relationship between internal audit and all these other capabilities will be covered in this so-called CIRC review.

The conditions for an effective service

The ambitious objectives of internal audit need certain conditions. They include independence of the unit from executive management and the systems that the auditors will be reviewing, professional standards of competence in the unit, top level support, adequate status within the department and full scope to review all the activities of the department.

Independence is needed if auditors are to be able to appraise and evaluate systems and management control objectively. If the Head of Internal Audit were to be responsible also for an executive function he could not be expected to criticise objectively his own control and conduct of that function. Similarly his objectivity in reviewing the operational activities of a divisional manager would be likely to be impaired if he had a line

* *House of Commons Parliamentary Debates*, 28 January 1983, col 1159.

responsibility to that manager. Professional standards secured by the right training for the right people are necessary to produce a competent service. Top level support and proper regard for internal audit should ensure that audit findings receive adequate consideration and that necessary improvements in internal control are made. Unless the auditor has authority to review control in every activity from top management downwards there will be gaps in the assurance he can offer to his Accounting Officer.

The impetus for improvement

These conditions were found to be largely unfulfilled when the Comptroller and Auditor General reported to the Public Accounts Committee in 1981. He criticised a lack of independence and status, limitations of scope, poor staff grading and training, planning, audit methods and the quality of work done. Some small departments, including HM Treasury, had no internal audit service.

Action taken

The then Permanent Secretaries to HM Treasury and the Civil Service Department wrote jointly to the Accounting Officers of departments inviting them to take a personal interest in reviewing and improving internal audit. Central departments are actively supporting the improvement. The aim is to bring internal audit in government to a satisfactory standard by 1986.

The role of the Treasury is to prescribe standards, to encourage and help where help is sought, to promote good practice and to disseminate experience and information. The Internal Audit Development Branch has prescribed standards in relation to the scope of internal audit, its independence, staffing and training, due professional care, planning, controlling and recording audits, audit evidence, reporting, fraud and irregularity and relationships with other review and inspection services. They are incorporated in the new Government Internal Audit Manual* which is being published in sections this year (the Government is using a new edition of the computer audit guidelines published by the Chartered Institute of Public Finance and Accountancy as a companion volume). The Internal Audit Development Branch is also, with the Civil Service College, making sure that training is available.

Departments meanwhile have restructured their units, made significant changes in their staffing (they have to clear the appointment of the Head of Internal Audit with the Treasury) and started to up-grade the quality of work, developing audit of the adequacy of control systems in place of regularity audit of financial transactions.

**Government Internal Audit Manual* by HM Treasury, HMSO, 1983.

The primary need has been not more but better quality staff. The movement in that direction is reflected in the following trends in the large departments:

Complement on	*Total*	*CO/CA*	*EO*	*HEO*	*SEO*	*Principal and above*
1.1.81	1,475	312	645	321	131	68
1.3.83	1,221	108	504	372	160	77

In other words, fewer but higher graded and better quality staff are needed to carry out the improved quality of auditing which concentrates on systems and management control rather than routine checking.

Recruitment and training have to match the new requirements. Because internal audit had often been no more than a routine checking activity internal auditors were recruited without particular aptitudes or qualifications. To improve quality, departments are adopting a positive posting policy to ensure that staff of the right quality and aptitude are selected. The shortage of internal audit expertise in government is being alleviated only to some extent by recruiting and by temporary secondment into the Civil Service. Training is urgently needed.

Following publication of a basic training standard (which set out the bodies of knowledge which all internal auditors are expected to have) new training routes have been established. Training for internal auditors has been set up in ten centres. They are in the Civil Service College, the Scottish Office, the City University Business School, Chelmer (Essex) Institute of Higher Education and polytechnics in Birmingham , Bristol, Kingston upon Thames, South London, Newcastle and Preston. Training has three main elements: internal auditing (theory, techniques and practice), accounting and management.

Trainees can be examined for the Institute of Internal Auditors' Diploma in Internal Auditing or the new CIPFA Certificate and Diploma in Public Sector Internal Audit. In September this year 345 government internal auditors started courses that lead to the former and 15 to the latter. A further 450 are expected to start courses in 1984 and 1985. Others who need training to top up their knowledge will find modular courses at the Civil Service College. By 1986 nearly all internal auditors in government should have reached the basic training standard. Each department has appointed an Internal Audit Training Liaison Officer to manage training needs and keep in touch with the central departments and tuition providers. A log book is being provided so that each student can have a record of his training.

A computer audit training standard sets out the additional knowledge needed by internal auditors specialising on computer systems and training standards are being developed for audit managers.

The management orientation of modern internal audit, the formal training and the wide experience given by a tour of duty in it will lead to a stream of good candidates for a wide range of posts after completing a tour in audit.

Internal audit and the Financial Management Initiative

The drive to improve internal audit does not take place in isolation. It is a part of the Financial Management Initiative because it is aimed at the improvement of management control. Internal auditors have a unique opportunity from an independent and objective viewpoint outside executive line responsibilities to contribute to this goal. Implementation of the revised role of internal audit is being pursued with vigour. Changing attitudes and developing the new capabilities will take time. We are now well on the road.

Should We Fire the Personnel Department?

Reflections on some of the wider issues to emerge from the Review of Personnel Work in the Civil Service

N B J Gurney

Nick Gurney took up duty as a Civil Service Commissioner and Head of the Basingstoke Office of the Management and Personnel Office on 1 September 1983. He was formerly Head of Management & Efficiency 1 Division of that department and leader of the central team responsible for co-ordinating the Review of Personnel Work in the Civil Service.[1]

The Review

The brisk advice to 'fire the personnel department' is contained in a short and practical book on management entitled *Up the Organisation.* It was written by Robert Townsend, formerly Chief Executive of the Avis Car Rental Company.[2]

To a large extent the recently-completed Review of Personnel Work (RPW) in the Civil Service was concerned with examining whether or not that was sound advice for the Civil Service. It focussed on two main issues: could the quality of personnel work in the Service be improved? and, secondly, could it be made more cost-effective? But, in tackling these issues, two fundamental questions had to be addressed again and again, namely:

(1) what should be the respective responsibilities of the central departments and of operational departments for personnel work? and

(2) within departments, what should be the respective responsibilities of line managers and personnel divisions?

These questions echo – in the personnel field – the sort of questions being asked under the Financial Management Initiative (FMI) in the area of resource management generally. Indeed, the two exercises were, and must continue to be seen as, complementary.

[1] *Review of Personnel Work in the Civil Service:* Report to the Prime Minister by J S Cassels, HMSO, 1983.
[2] *Up the Organisation* by R Townsend, Hodder-Fawcett, 1971.

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Previous articles in this journal (for example, that by Alan Payne on the Review of Support Services in R&D Establishments[1] and those by Tim Lonsdale on the Review of Administrative Forms[2&3]) have described the methodology and approach of multi-departmental reviews, which have come to play an increasingly significant role in the government's centrally co-ordinated efficiency programme. Suffice it to say, therefore, that the RPW was part of the 1982 programme; that it took place in nine departments covering some 60% of the non-industrial Civil Service (albeit with a heavy bias towards the Administration Group); that it was carried out by departmental teams working on normal scrutiny lines; that their work was co-ordinated by a central team drawn from the then Rayner Unit and MPO operating under the direction of Mr John Cassels, formerly Second Permanent Secretary of the MPO; and that the Review began in May of last year, Mr Cassels reported the general findings and lessons to the Prime Minister in March of this year and the results were published on July 14.[4]

All the teams examined the same central core of 'cradle-to-grave' personnel activities, such as recruitment, staff appraisal, career development and different ways of leaving. Their reports are available from the departments concerned, and Mr Cassels' report, setting out his main conclusions and recommendations, can be obtained from HMSO.

But, as I have indicated, more fundamental and deep-seated questions about responsibility and authority lay behind the scrutiny of specific personnel functions. It is how individual departments respond to these questions, in the context of their own particular circumstances, opportunities and constraints, which will determine the future direction and style of personnel work in the Civil Service, rather than the impact of any particular set of recommendations. I would therefore like to offer a few further observations n these questions in the hope of stimulating continuing reflection and debate.

How centralised?

My first observation falls into the category of a 'blinding glimpse of the obvious'. But it is fundamental to everything else. It is, simply, that clarity about the purpose and objectives of personnel work is essential if authorities and responsibilities are to be properly allocated and delineated.

[1]'The Review of R&D Support Services' by A Payne, in *Management in Government*, November 1982, pp 241–249.
[2]'Government Forms' by T L Lonsdale, in *Management in Government*, May 1982, pp 107–112.
[3]'The Language and Design of Effective Forms' by T L Lonsdale and L F Goddard, in *Management in Government*, August 1982, pp 147–153.
[4]*Review of Personnel Work in the Civil Service*, op. cit.

Self-evident though this statement might be, we detected during the Review a tendency on the part of some personnel practitioners to view their work as an activity in its own right, largely divorced from, and independent of, the business and organisation of which, in reality, it is a part. But, as the central report puts it, the main purpose of personnel work is 'to mobilise the experience, talents and abilities of staff in an organisation to secure the efficient and effective execution of its policy and operational goals' (paragraph 2.1). The same point has been well expressed by Sir Peter Baldwin in an article in the last edition of this journal:

> 'The conclusion about "personnel management" . . . is that there may well be risks of shortcomings in performance if it is set aside as a subject in itself; as something distinct from the operation in which the people within its scope are involved; as a function which can be discharged adequately without constant attention to what the operation is intended to achieve. Personnel management is not something different from the manager's managing of the people engaged in his operation.'*

The last sentence of the above quotation reflects one of the most significant points to emerge from the Review, namely that staff management must be seen as an integral part of a line manager's function. Hence, the strong theme which runs through the Review's recommendations in favour of delegating more personnel authority to line managers, for example in such areas as recruitment, probation, staff development and deployment, and inefficiency, and holding them accountable for how they exercise it. This seems to me to make sense on two counts. First, it is line managers, in day-to-day contact with their staff, who can do more to motivate and assess them, and understand and shape their career expectations, than a more remote central personnel unit. Secondly, moves under the FMI to make line managers more accountable for their performance will be bogus and stillborn unless they are given the necessary authority. This must include authority over staff – our most valuable resource – if line managers are to be rendered more fully accountable for their performance in the round.

This should not be taken as a pell-mell rush in the direction of line management, leaving a decimated personnel unit to do the paperwork and pick up the casualties of arbitrary decisions by line managers. We are talking about a continuing partnership, based on close liaison, between line managers and personnel staff. Essentially, it is a question of balance, of where to draw the line. There are clearly limits on how far the process can

*'Reflections on Personnel Management in the Civil Service' by Sir P Baldwin, *Management in Government*, August 1983, pp 142–158.

go. But, at present, personnel work in the Civil Service is heavily centralised, in the view of most of the review teams excessively so. One reflection of this is the enormous body of central rules and guidance, for example in the Civil Service Pay and Conditions of Service Code and the Establishment Officers' Guide, which both run to three substantial volumes and many thousands of paragraphs. These are frequently amplified and elaborated on by departments themselves to meet their own circumstances. More significant, however, is the centralisation of authority, with most decisions on personnel matters being reserved for personnel staffs. Compared with their counterparts in the private sector, line managers in the Civil Service have considerably less authority over the recruitment, posting, promotion, disciplining and dismissal of their staff.

This approach has a number of drawbacks. One is the emphasis on uniformity and paper-bound procedures, with personnel divisions being too often seen within departments as the custodians of rule-books which are there to be applied in the precise and literal way by line managers and staff. Insufficient attention is paid to the widely differing needs and circumstances between and within departments. They need more scope to handle their personnel responsibilities in a way appropriate to their own needs. Another is the uneasy relationshp which can exist between personnel divisions and line managers, with each failing to appreciate fully the other's point of view and tending to blame each other when things go wrong. Most important, as I have mentioned, is that line managers are not encouraged to take their staff management responsibilities seriously enough, since too much personnel work is seen as being required for the benefit of personnel divisions. There is excessive dictation to the line by personnel, so that decisions are not being taken by those who have to live with the consequences.

There are several reasons for the current state of affairs. In redrawing the balance, it will be vital not to lose sight of some of the more respectable ones. To my mind, the most important of these is a very proper concern to uphold fairness and equity of treatment (which is not the same as Service-wide uniformity), both in appearance and in reality. Morale will plummet and staff dissatisfaction soar if they feel that their legitimate interests are being ignored or that line management is acting capriciously or unfairly. Moreover, it is essential to maintain safeguards in certain crucial areas, for example to ensure fair and open competition in recruitment and to promote equal opportunities across the Service.

It is also important to recognise that the correct balance of authority between the line and personnel will vary according to circumstances, both between and within departments. It will depend on such matters as the nature of the decision involved, the grades of the staff concerned and how the department is organised. For example, it will often be more sensible

and cost-effective to give regional managers, responsible for several thousand staff, more personnel authority than their counterparts in headquarters responsible for a cluster of small policy divisions. But the principles of maximum delegation to the line and of clarification of respective responsibilities apply to the latter just as much as to the former, since they too need to realise that staff management is an integral part of their overall management task. But it would be foolhardy to deny that the precise nature of their responsibilities will be different. There is no one right prescription across the Service.

It would be equally foolhardy to deny that there is much in the Civil Service's personnel arrangements to admire and that a lot of first-rate work is going on. It is also the case that a number of departments, such as DHSS, have taken steps to strengthen line managers' authority over their staff. But I for one am convinced, for the reasons given above, that the Service needs to go further down the road of redressing the balance of authority towards the line, and in creating a more flexible framework which encourages a managerial culture within departments related to their particular businesses.

Whither personnel divisions?

Where, then, would this leave the personnel divisions? Should they be fired, as Mr Townsend suggests? The answer is an emphatic 'no'. They will still have an essential role and vital contribution to make. But it needs to be reshaped and redefined. They will need to move away from taking most individual decisions and laying things down in detail and become responsible for:

(1) developing departmental personnel strategies and policies;

(2) laying down only that framework of procedures necessary to ensure the minimum essential degree of consistency and equity;

(3) providing information and expert advice to line managers and staff on the application of these policies and procedures in particular circumstances;

(4) monitoring compliance. It is, of course, a cardinal principle that delegation should be matched by effective central monitoring.

These tasks will call for a somewhat more expert personnel staff who can command the confidence of line management by their ability and knowledge. More formal training (in some cases leading to professional qualification) and longer postings for such staff will be two of the necessary ingredients for achieving this.

A unified Civil Service?

Much of what has been said above applies with equal force to the central departments. Hence the emphasis in Mr Cassels' report on the need for each department to develop its own coherent strategy of personnel policies and related procedures tailored to its particular needs, with the MPO confining its prescriptive task to promulgating basic principles of clear relevance to the Service as a whole. The central departments have for some time been worrying about the balance between their prescriptive and advisory roles, and have launched regular initiatives in seeking departmental views on which central controls could be abandoned or relaxed. The FMI and RPW will reinforce this process by stimulating the more radical re-examination of a wide range of such controls.

But beneath this lies a more fundamental issue, namely the continuing relevance of the concept of a unified Civil Service. At one extreme, there are those who argue that all civil servants are part of one career Service and should be treated uniformly in such matters as pay, pensions, personnel management and so on. If the reality does not fit this single monolithic approach, then, like Procrustes, they believe the reality must be forcibly shaped to suit it. At the other extreme are those who contend that individual departments are solely responsible for running their particular businesses and should be accountable to Parliament alone for their efficiency and effectiveness in this regard. It follows that they should have full discretion to determine the policies and procedures under which their staff are managed, including their pay, numbers and grading. In many ways, this would mark a return to the pre-Northcote-Trevelyan Civil Service and it would, of course, undermine the moves towards the elimination of separate classes and departmental grades which have been a significant feature of the post-Fulton changes in the Civil Service. The majority view – as it seems to me – is that for certain purposes, such as pay, pensions, conditions of service, minimum recruitment qualifications, it is both efficient and desirable to treat the Civil Service as a single entity; but that for others, such as the softer 'core' of personnel management, diversity and discretion must be the order of the day to reflect the variety of functions, organisations and staff to be found in the Service.

The RPW alone could not resolve this fundamental issue. Again, it is a matter of balance which will shift over time. My purpose in raising it is to avoid the issue going by default. As exercises like the FMI and RPW move forward from paper aspiration to on-the-ground reality, it seems to me inevitable that the balance will move further away from the concept of a unified Service towards greater emphasis on departmental autonomy and discretion. But it is important for all concerned to be aware of the wider implications of the process and for the Central departments, in particular, to adopt a coherent approach in dealing with them. One topical example is

that of performance-related pay, which straddles the boundary between pay (closely controlled from the centre) and motivation (much less tightly controlled). If this is introduced into the Civil Service will the system be prescribed in detail by the centre, for example on the amounts involved, the criteria to be met and so on? Or will discretion on these matters be left to individual departments to decide within an overall budget? Conflicting arguments and pressures are involved, and their resolution will provide an early indication of which way the wind is blowing.

Postscript

I would like to conclude with a purely personal observation. It seems to me that much personnel work in the Civil Service will continue to be strongly centralised so long as grades, rather than specific jobs, remain the focus of many personnel activities. We usually recruit to a grade; we promote to a grade; we tend to assume that members of a grade can perform satisfactorily in a wide range of jobs allocated to that grade (although this is breaking down a little under the pressures towards greater specialisation). Such arrangements lead inevitably to a high degree of paternalism and impose substantial constraints on the scope of line managers to hire and reward their staff, and of individuals to take more responsibility for their own careers. An intriguing contrast is offered by the self-posting schemes operated by some foreign Civil Services, by local authorities and by many private sector companies. Under these, specific job vacancies are advertised, individuals apply (usually on promotion) and the line manager, with the support of personnel staffs, selects the candidate who, in his opinion, is best suited to the particular job. This system, in which the individual proposes and the line manager disposes, places more emphasis on individual initiative and line management choice than that current across much (but by no means all) of the Civil Service. The RPW did not favour such a radical alternative, not least given the prevailing culture and ethos of the Service. But progress on this Review, and on the FMI, over the next few years could lead to the issue resurfacing in a more acute form in the future. It would, I feel, be a major question to be addressed by the next Review of Personnel Work in, say, the early 1990s.

Financial Management Training at the Civil Service College

M S Levitt

Malcolm Levitt was Director, Economics and Financial Management at the Civil Service College when he wrote this article. A former academic economist, he joined HM Treasury in 1968 and his official career has been concerned mainly with public expenditure and taxation matters. He joined the College in November 1980.

Introduction

The purpose of this article is to outline the Civil Service College's programme of training in financial management, against the background of the Financial Management Initiative. The May 1982 White Paper on *Efficiency and Effectiveness in the Civil Service*[1] announced the Financial Management Initiative (FMI). It placed great emphasis on the need for clear objectives and responsibilities for managers of public spending and for:

> 'the information (particularly about costs), the training and access to expert advice which they need to exercise their responsibilities effectively'.[2]

[1] *Efficiency and Effectiveness in the Civil Service:* Government Observations on the Third Report from the Treasury and Civil Service Committee, Session 1981–82, HC 236, Cmnd. 8616, HMSO, 1982.
[2] Ibid, para 13.

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Paragraph 50 of the White Paper announced a new programme of training for Principal Finance Officers – key figures in the successful implementation of the FMI:

> '. . . a new Senior Finance Course has been introduced for staff expected to fill senior posts with important financial responsibilities. After April 1983 it will normally be required that an officer will have completed this course before being appointed a Principal Finance Officer or will do so without delay after appointment.'

The September 1983 FMI White Paper[1] reports progress on the FMI and it says of departmental plans that 'these will not be effective without complementary changes and improvements in the management and training of staff'. It goes on to spell out some of the training implications of the FMI.

Closely associated with the overall approach of the FMI, HM Treasury has introduced a new audit training standard with major training consequences[2], also big efforts are being made to raise the quality of investment appraisal in departments[3]; additionally the Government has adopted a policy of doubling the number of accountants in the Civil Service, partly by recruitment and partly by training[4]. These three developments all have implications for the College.

Demand for the College courses in government finance, investment appraisal, accountancy and internal audit (including computer audit) has increased beyond the recognition of a few years ago; student days will have more than doubled between last academic year and next. Seminars more generally with a 'value for money theme', as well as the more technical training, are in particularly high demand.

Client groups

The September 1983 White Paper mentions three major target groups for training:

(1) staff likely to reach senior management posts with a finance aspect;
(2) staff working in finance divisions and related areas;
(3) all staff with significant resource management responsibilities.

The first group includes Principal Finance Officers (PFOs), who are a priority group for the new Senior Finance Course.

[1] *Financial Management in Government Departments,* Cmnd. 9058, HMSO, 1983.
[2] See 'Internal Audit in Government Departments' by J Issacs on pp 274-278 of this issue.
[3] See 'Investment Appraisal in the Public Sector' by M J Spackman on pp 234-243 of this issue.
[4] See 'A Wider Role for Accountants' by K H Hills, *in Management in Government,* May 1982. pp 83-91.

The Senior Finance Course

Following discussions with MPO, HM Treasury, Lord Rayner's Unit and several PFOs the College introduced the Senior Finance Course in 1982/83. The course is now mandatory for those who become PFOs unless they have already covered the material in other ways. It now includes modules on the following topics (each separate module is two and a half days, except (b) which is one day), and each normally runs twice a year (although (a) to (e) were re-run *en bloc* in June 1983):

(a) developments in financial management in government;
(b) government accounting;
(c) financial accounting;
(d) management accounting;
(e) resource allocation and investment appraisal;
(f) performance measurement;
(g) use of computers in financial management;
(h) sponsorship responsibilities.

We would not claim that our approach is 'ideal', for there is no ideal. Questions of course content, of the balance between the conceptual and the practical, between descriptions of existing systems and the consideration of innovations, between depth and breadth in the time available, between formal lectures, open discussion and written exercises are all open to judgement. We carefully review each module to see whether amendments are needed for the future, in consultation with HM Treasury and the joint MPO/Treasury Financial Management Unit. The course has two main aims. One is to present key basic concepts, skills and procedures relevant to financial management in government. The other is to provide an opportunity to discuss central management initiatives, examples of good practice, departmental innovations, and practical problems of implementation. Thus modules (b), (c), (d) and (e) above have a heavy emphasis on basic concepts and procedures, although there is ample scope for discussion of, for example, developments in government accounts, and of the wider implementation of the matters raised in all these modules. On the other hand modules (a), (f) and (g) are more concerned with areas in which policy, knowledge and ideas concerning good practice are developing and where broader management matters (for example in the personnel field, issues of delegation etc) are relevant.

New PFOs are expected to have attended *at least* five out of eight modules; the course is also recommended for PEOs and others with senior resource management responsibilities. For the first one or two modules most of those attending were self-nominees but it is noticeable now that top departmental management is active in deciding who should attend.

This reflects not only interest in the FMI but also the implementation of the succession planning process in departments.

The prior knowledge of those attending can vary quite considerably, so that those who have a grasp of nuts and bolts or even considerable practical experience of some specific topic naturally prefer discussions of the grand design whereas others often welcome formal training on the same subject. These contrasts are usually clearly reflected in the written assessments submitted by course members to the College at the end of each module. Variety in prior knowledge reflects differences in previous training and postings. Over time, as the new positive approach to training and the more active policy towards postings and succession planning take effect, this heterogeneity among course members should diminish. For the present, however, the College's approach is to provide pre-course reading on basics, and to aim to bring all those attending up to a certain level of familiarity and competence, while allowing for discussion of more esoteric matters in the open sessions which follow every lecture.

Those addressing the course include officials responsible for central policy initiatives, departmental practitioners, people from major private sector undertakings, and College staff. For the future we hope that Ministers will address the course from time to time. It is very clear that those attending particularly value concrete examples of good practice and practical guidance on the real world problems they face. In many areas we are all learning, and over time our range of practical illustrations will grow; at present we tend to make disproportionate demands on the time and goodwill of a few key people.

The course cannot be a substitute for practical experience; it is intended to complement suitable postings and it does provide a more rapid learning process than posting alone. In terms of the depth of its coverage, it aims to provide a fairly practical appreciation course for managers in the various skills and procedures which they should be expected to use in financial management work. But it does not go into as much depth on, say, various aspects of accountancy and audit as (far lengthier) courses on comparable topics for professional accountants or auditors.

A major benefit of the course, apart from its formal training contribution, is that it provides a valuable forum for the exchange of views between the centre and other departments in the informal surroundings of the College. It has demonstrated the value of oral communication – a two-way process – as a necessary complement to written guidance alone, of which there is a considerable volume and which can give rise to misunderstandings.

FMI seminars

In the light of experience with the Senior Finance Course the College has

arranged a series of one-day seminars for officials at about Under/Assistant Secretary level, with significant responsibilities for either internal administrative expenditure or policy towards public expenditure programmes. The intention is for the seminars to concentrate on practical matters arising from the implementation of departments' FMI plans.

Training for finance division and specialists

The College provides a wide range of courses relating to financial management. Some courses are particularly intended for those in finance divisions and related areas undertaking specialist finance work, for example audit courses, courses in government financial and accounting systems, costing methods, and professional accountancy courses. Demand for this training is expanding rapidly. However the College also provides somewhat more general management appreciation courses on principles of accounts, management accounting, investment appraisal, and developments in government accounting. Interest in these courses from more senior staff in finance divisions who need to supervise and operate the new financial planning and control systems in departments is growing and the College is having to amend its approach and material accordingly.

Several hundred staff will be trained up to the new Audit Training Standard. To meet this demand quickly, and bearing in mind constraints on Civil Service College staff numbers, courses have been arranged at a number of polytechnics, with the College advising on content and appropriate teaching materials. For professional accountancy training the College has organised revision courses for officials undertaking individual correspondence courses. As training to implement the Government's policy of doubling the number of accountants in the Civil Service develops, considerable use will be made of accountancy firms, as well as the Ministry of Defence training centre at Worthy Down (which provides the bulk of professional accountancy training for officials at present).

Other staff with resource management responsibilities

Management appreciation courses of the sort first referred to are attracting more attention from those involved in managing operational units, and, increasingly, central policy divisions as interest in financial management spreads. Many of those now appearing on such courses, while expecting to receive training in the relevant techniques and procedures, probably place greater weight on the more general management/policy environment than hitherto. At the same time those involved in cost-centre management have a right to expect training in the specific skills and procedures they need to master. These are not incompatable demands; they put the emphasis on what people *need to know* to do a particular job

rather than on the more traditional approach which has tended to be to provide different courses in different particular disciplines, for example different branches of accountancy. For the future the training we offer will reflect this more customer-orientated approach.

More general staff

As well as the finance and other senior staff already referred to there is considerable emphasis on financial management in training for staff more generally. For example the AT course contains modules on Finance and Control of Public Expenditure (five days), Principles of Accounts (five days) and Resource Allocation and Financial Management (ten days). Seminars on topics such as 'Value for Money', 'Efficiency in Government' and the annual College seminar on the Public Expenditure White Paper are all proving to be in high demand.

Keeping up-to-date

The Treasury and the joint MPO/Treasury Financial Management Unit have arranged to keep the College informed of developments in policy, procedures, and examples of departmental good practice so that the College generally can keep abreast of developments in financial management. This is very valuable indeed. It is essential that College teaching staff should do as much as possible to keep up with progress in this area and to update their case studies and examples. This can involve a considerable investment of time in the face of pressures to mount as many courses as possible in this field. But the two are not incompatible as the future success of the College – demonstrated by continued high demand for places – will depend on the realistic and up-to-date nature of the examples and problems used to illustrate our courses.

Conclusions

Interest in financial management training has undoubtedly grown as a result of the FMI and the associated developments relating to investment appraisal and internal audit. Senior staff are now expected to have more effective command of the financial management skills of their specialist advisers and subordinates, so as to have more fruitful discussions with them and to recognise when expert advice is needed. They are also expected to take a more professional, direct, interest in the resources they manage and are responsible for, as well as in the expenditure policies they may advise upon. The Senior Finance Course is intended to contribute towards these developments in senior management skills.

For specialists in finance work and for officials more generally a considerable volume of training is also being planned and delivered by the College (although more will be undertaken by departments themselves, especially on particular departmental systems).

All these developments mean that the College, recognised as having a valuable contribution to make to the FMI, is rather more exposed that it was. I think we can claim that the College has responded quickly and well to the new demands. But this greater exposure also means that we have to take great care continuously to improve our product in terms of its intellectual content, by keeping it up-to-date, and by remembering to keep sharply in focus what our customers need.

Civil Service College Courses and Seminars

The Civil Service College runs a wide range of courses and seminars, many of which are open to both civil servants and people outside government. A small selection of the courses due to be held between February and April 1984 is shown with a contact point for further information.

Course Title	*Dates*
Numeracy for managers (five one-day courses)	January – March 1984
Operational research workshops (ten one-day courses)	January – June 1984
Systems thinking workshops	17 February 1984
	16 March 1984
	13 April 1984
Creative action	5 – 9 March 1984
Management science: the administrator's needs	26 – 30 March 1984

Contact: Miss S Gearing, Civil Service College
Sunningdale Park, Ascot, Berks SL5 0QE
Telephone: Ascot (0990) 23444 ext. 275 or GTN 2092 275

Computer systems procurement	13 – 17 February 1984
	12 – 16 March 1984
	30 April – 4 May 1984
Assignment skills	13 – 24 February 1984
	5 – 16 March 1984
	2 – 13 April 1984
NCC certificate in basic systems analysis	19 March – 13 April 1984
Basic assignment skills and strategy	February – April 1984

Contact: Mr A Ruston, Civil Service College
11 Belgrave Road, London SW1V 1RB
Telephone: 01-834 6644 ext. 374 or GTN 2803 374

Foundation course in administration	30 January – 3 February 1984
	26 March – 13 April 1984
Introduction to policy analysis	30 January – 3 February 1984
Parliamentary questions	14 February 1984
	10 April 1984
Central/local government interaction	20 – 24 February 1984
The policy process	20 February – 2 March 1984
International work of home departments	29 February – 2 March 1984
Government and outside organisations	9 – 13 April 1984

Contact: Mrs M Ward, Civil Service College
Sunningdale Park, Ascot, Berks SL5 0QE
Telephone: Ascot (0990) 23444 ext. 296 or GTN 2092 296

Policies and provision for young people	8 – 10 February 1984
Managing equal opportunity in the Civil Service	13 – 15 February 1984
Working together: co-ordination with the voluntary sector	15 – 17 February 1984

Contact: Mrs A West, Civil Service College
11 Belgrave Road, London SW1V 1RB
Telephone: 01-834 6444 ext. 307 or GTN 2803 307

Organisational change	6 – 10 February 1984
Consultants and advisers	8 – 17 February 1984
Selection interviewing	2 – 4 March 1984
Managing technological change	5 – 9 March 1984
Consultancy for assignment officers	21 – 30 March 1984
	9 – 18 May 1984

Contact: Mr B Hogan, Civil Service College
Sunningdale Park, Ascot, Berks SL5 0QE
Telephone: Ascot (0990) 23444 ext. 341 or GTN 2092 341

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Printed in England for Her Majesty's Stationery Office by Adams Bros. & Shardlow Ltd., Leicester
Dd 0736120 C33 11/83

Management in Government

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ISBN 0 11 722718 8
ISSN 0263-4678